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ECONOMIC AFFAIRS



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1 August 1984

CHINA REPORT ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

SUMMARY OF DISCUSSIONS ON BUILDING SOCIALISM

HK061022 Beijing JINGJI YANJIU in Chinese No 5, 20 May 84 pp 73-76

[Article by Li Chaowan [4409 6389 2429]: "A Summary of Discussions on Building a Socialist Economy With Chinese Characteristics"]

[Text] Ever since Comrade Deng Xiaoping proposed "the construction of socialism with Chinese characteristics" in his opening speech at the 12th party congress, theorists have been researching this topic in the areas of economics, politics, and culture and an enthusiastic debate has developed. The debate touches on many different areas. Here I would like to briefly summarize some of the questions that have so far been involved in these discussions and debates.

1. On the Basic Meaning of "The Construction of Socialism With Chinese Characteristics"

(1) The construction of socialism with Chinese characteristics is an integration of the universal truths of Marxism or the common laws of socialist construction with the actual situation in China.

This is how the phrase is understood by the vast majority of comrades in China. Thus some comrades say that the proposal to construct socialism with Chinese characteristics is aimed at restoring the party tradition of integrating the universal truths of Marxism with the concrete situation in China, gaining a further understanding of the developmental laws of socialism in China, and seeking the best method of socialist construction, "creatively solving problems within the development of China's socialist cause by truly seeking truth from facts." (Footnote 1) (Teng Wensheng and Jia Chunfeng "On the Construction of Socialism with Chinese Characteristics," QUANGMING RIBAO, 22 August 1983). Some comrades believe that "the integration of the universal truths of Marxism with the actual situation in China, taking an individual road, and constructing socialism with Chinese characteristics" contains one key word, namely "integration," and that work should be done on this word "integration." "Without 'integration' there can be no Chinese characteristics and thus no socialism either." (Footnote 2) [Wang Jia "The Integration of the Universal Truths of Marxism With the Actual Situation in China" XUEXI ZAZHI [STUDY MAGAZINE] No 5, 1983). The construction of socialism with Chinese characteristics does not mean departing from individual principles of socialist construction, nor is it something which does not contain ordinary Chinese characteristics, rather it is "the integration of the

common laws of socialist construction with the actual situation in China." (Footnote 3) (Chen Ziyun "Aim at Integration, Develop Characteristics," QUANGMING RIBAO, 31 October 1983). This kind of integration should be comprehensive integration and should manifest itself throughout the entire system and structure. Its characteristics manifest themselves in the actual path and style of the struggle program. Only when these characteristics correspond with the basic principles and basic characteristics of scientific socialism and in addition correspond with the actual situation in China and revolutionary tradition, as well as the superiority of the socialism system, can they "finally form the complete shape of socialism with Chinese characteristics." (Footnote 4) (Ibid.)

(2) The construction of socialism with Chinese characteristics has a specific starting point and also a path and target.

Some comrades believe that the construction of socialism with Chinese characteristics means constructing China into a modernized, highly civilized, and highly democratic, strong socialist nation. This then is "a general target" (Footnote 5) (See "During Comprehensive Reforms Probe the Construction of Socialism with Chinese Characteristics," GUANGMING RIBAO, 8 August 1983). Some comrades say that the construction of socialism with Chinese characteristics "is both our aim and our starting point." (Footnote 6) (Hu Zhichao "The Major Content of the Construction of Socialism with Chinese Characteristics," JINGJI RIBAO, 23 August 1983). In other words, this is a process. Some comrades feel that the construction of socialism with Chinese characteristics means "starting out from the actual situation in China in all things, relying on the wisdom and intelligence of the masses, and taking our own road." (Footnote 7) ("Mao Zedong Thought Will Shed Its Rays Forever," RENMIN RIBAO commentator's article 26 December 1983). Other comrades say that "the construction of socialism with Chinese characteristics is both our starting point and our aim. It is also the road to construction which we must continue to probe and at the same time it is the result that we achieve by respecting this road." (Footnote 8) ("The Construction of Socialism with Chinese characteristics," HONGQI No 24 1983). In other words it is a unity of the starting point, the road, and the target.

(3) Some controversial problems.

Firstly, is there a difference between "the construction of socialism with Chinese characteristics" and "Chinese socialism with Chinese characteristics," and if so what is the difference? Some comrades believe that there is no strict difference between "the construction of socialism with Chinese characteristics" and "socialism with Chinese characteristics." However, some comrades believe that we should not confuse "the construction of socialism with Chinese characteristics" and "socialism with Chinese characteristics," otherwise we will create a "confusion of logic and this will lead to a lack of clarity and accuracy of concepts with the result that people will fail to grasp the main points." These comrades believe that the former "indicates the road of construction and the construction process, it indicates practice," while the latter "indicates the kind of socialism that we should construct on the basis of the situation in our country. Thus it indicates the target of our struggle." (Footnote 9) (Zhong Yan "We Must Take Care of Accuracy in Concepts," XUEXI ZAZHI [STUDY MAGAZINE] No 9, 1983).

Secondly, is it right to divide up "socialism with Chinese characteristics" into the two party "socialism" and "Chinese characteristics" so as to understand the concept? Many comrades believe that "'socialism with Chinese characteristics' incorporates two different levels of meaning: one being "socialism" and the other being "Chinese characteristics." (Footnote 10) (Zhang Yi "What is Socialism With Chinese Characteristics?" JINGJI RIBAO, 8 October 1983). However, some comrades do not embrace this view, believing instead that it "lacks accuracy and clarity" because to understand this complete concept of "socialism with Chinese characteristics" by dividing it up into two parts means that "the first part contains virtually no sense of the "characteristics" and this makes people think that the meaning implied within the concept "socialism with Chinese characteristics" is that either there are Chinese characteristics or there are no Chinese characteristics." (Footnote 11) (Yang Zilin "The Key Is In Understanding the Word "Characteristics'" XUEI ZAZHI, No 9, 1983). Some other comrades feel that "it is wrong to examine the question by dividing up or even opposing Chinese characteristics and socialism." (Footnote 12) ("Construct Socialism With Chinese Characteristics" XHONGQI No 24, 1983).

Thirdly, what is the relationship between Chinese characteristics and the situation in China on the one hand and Chinese characteristics what is peculiar to China on the other? Let us first of all deal with the relationship between Chinese characteristics and the situation in China. One school of thought holds that Chinese characteristics are the situation in China. Another school of thought believes that "if the national conditions are the characteristics, and the national conditions are already the way they are, then why go on searching for a road for constructing a socialism with Chinese characteristics?" In basic terms the condition of the country is that it has a large population, little cultivable land, that 80 percent of its population of 1 billion are peasants, its economy is backward, labor productivity is low... and so on. "If the condition of the country equals socialism with Chinese characteristics, then isn't that the same as saying that Chinese socialism is a kind of socialism with a backward economy and low labor productivity?" (Footnote 13) (Zhong Yan "We Must Take Care of Accuracy in Concepts," XUEXI ZAZHI, No 9, 1983)

The relationship between "Chinese characteristics" and what is peculiar to China. Some comrades believe that one cannot say that there can only be "Chinese characteristics" where there are differences with things foreign and that in areas of similarity with things foreign there can be no "Chinese characteristics." "Characteristics mean particularity or individuality. And particularity is linked in its existence with universality and one cannot seek commonality by ignoring individuality nor can one seek individuality by ignoring commonality." (Footnote 14) (Yang Luo "A Discussion on How to Grasp Chinese Characteristics." GUANGMING RIBAO, 9 May 1983). Other comrades are opposed to this and say that "it clearly does not hold water to simply reject 'characteristics exist in areas different from things foreign' by means of 'characteristics in areas of similarity.'" If "areas of similarity" are understood as "common principles" or "commonality" and "areas of dissimilarity" are understood as "characteristics" or "individuality," then do "Chinese characteristics" actually manifest themselves in "areas of similarity" or in "areas of dissimilarity?" (Footnote 15) (Xiao Jiang "In Grasping 'Chinese characteristics' we must pay attention to characteristics and development," GUANGMING RIBAO, 27 June 1983). Some other comrades are opposed to this latter view and they feel that Chinese characteristics are

not manifested in "areas of similarity" but are manifested in "different areas," there being a bias in this formulation. "Any one thing is the organic unity of commonality and individuality and if one departs from this commonality and individuality then one ends up with a purely imaginary and unreal thing. At the same time individuality also incorporates commonality. Thus "socialism with Chinese characteristics" is the organic unity of common regularity of socialism and the manifestational form of socialism's Chinese characteristics." (Footnote 16) (Hugan Shaohui "'Chinese Characteristics' Manifest Themselves in the Unity of Commonality and Individuality," GUANGMING RIBAO, 31 October 1983).

The relationship between content and form. Some comrades say that "Chinese characteristics" are determined by the fundamental condition of China. "'The fundamental condition of the country' is the content and the 'Chinese characteristics' are the form" (Footnote 17) (Yang Zhengtai "Socialism with Chinese Characteristics Is the Unity of Content and Form," GUANGMING RIBAO 19 September 1983). However, other comrades believe that one cannot say that "the fundamental condition of the country" is the content of "Chinese characteristics," and that one cannot reduce socialism with Chinese characteristics to a unit of "the fundamental condition" of China (content) and "Chinese characteristics" (form). The content should be socialism and Chinese characteristics are its form and thus "it is a unity of the content of socialism and Chinese characteristics" (Footnote 18) (Zhong Jisheng "'Chinese Characteristics' are the manifest form of the content of socialism," GUANGMING RIBAO, 31 October 1983).

2. On the Characteristics of the Road of Socialist Modernized Construction

In the debate many comrades believe that since the 3d Plenary Session of the 11th CPC Central Committee, China's road of socialist construction has begun the initial formation of and is now developing its own characteristics. In discussions of the manifestation of these special features some comrades believe that the 10 articles summarized within the "Decisions Concerning Some Historical Problems in the Party Since the Founding of New China," which was passed at the 6th Plenary Session of the 11th CPC Central Committee "have outlined a basic sketch" for the road to the construction of socialism with Chinese characteristics. The 10 articles include such things as the statements that the main contradictions since the fundamental completion of socialist transformation are the contradictions between the constantly increasing material and cultural needs of the people and the backwardness of social production and that socialist economic construction must start out from the condition of the country and gradually achieve its target of modernization through struggle and gradual phases, and that changes in and perfection of socialist production relations must correspond to the state of the productive forces and must benefit production development. These comrades also believe that the principles and policies drawn up by the party are "principally aimed at developing and perfecting this road." (Footnote 19) (Zhang Feng "The Road and the Target," XUEXI ZAZHI, No 9, 1983). The socialist construction that we carry out as we follow this road has Chinese characteristics.

Other comrades believe that as far as the road to socialist modernized construction with Chinese characteristics is concerned, "its main points have already been reflected in the struggle program of the party 12th National Congress.

Thus, for example, the focus of the party's and the state's work must be shifted to socialist modernized construction, centered on economic construction, and that at the same time as constructing a high level material civilization there must be hard work to construct a high level socialist spiritual civilization and that the basic target and one of the basic tasks of socialist construction should be the construction of a high degree of socialist democracy. In economic construction it is necessary to maintain strength, to actively struggle, to proceed in an orderly way, step by step and to steadfastly ensure that changes in and perfection of production relations correspond to the state of the productive forces and are of benefit to the development of production. It is necessary to correctly handle the relationship between production construction and the people's livelihood, agriculture, light industry, and heavy industry, the planned economy and market adjustments, the open door policy and self-reliance, and so on." (Footnote 20) ("Mao Zedong Thought Will Cast Its Rays Forever" REMNIN RIBAO commentator article 26 December 1982). The 12th Party Congress analyzed the actual condition of China and the present economic situation and "clearly outlined three important strategic focuses, two strategic steps, four strategic principles, and a series of further policies and measures and together these make up the major contents of the Chinese style of the road of modernization." (Footnote 21) (Wu Zhenkun "Take The Chinese Road of Modernization and Construct Socialism with Chinese Characteristics," NINCXIA RIBAO, 16 November 1982). The economic construction program proposed at the 12th party congress is a comprehensive, scientific, economic program with Chinese characteristics and "it encapsulates in its very foundations the concrete road for China's socialist construction. It also embodies the common characteristics of socialism as well as the special historic features of China's socialist construction being carried out at this period in time and the present condition of China." (Footnote 22) (Chen Ziyun "Aim At Integration, Develop Characteristics," QUANGMING RIBAO, 31 October 1983).

Still other comrades believe that the most important special features are the four guarantees to be upheld on the socialist road, namely: (1) organizational reforms and reforms of systems; (2) the construction of spiritual civilization; (3) attacks on economic crimes and criminal activities in other areas; (4) rectification of the party work style and organization. "Proposing the four guarantees and maintaining their implementation is in itself an extremely important special feature of socialist construction." (Footnote 23) (Teng Wensheng and Jia Chunfeng "On the Construction of Socialism with Chinese Characteristics," QUANGMING RIBAO 22 August 1983). In particular, comprehensive reforms are a basic means of constructing socialism with Chinese characteristics. "Bring out the special features, the road, and the target through reforms. In many senses the road of construction of socialism with Chinese characteristics is in fact the path of comprehensive reform" (Footnote 24) (Zhang Feng "The Road and the Target," XUEXI ZAZHI, No 9, 1983).

3. On the Special Features of the Socialist Economy

The characteristics of the socialist economy are not only manifested in the area of socialist modernized construction, but also in the area of the socialist economic system. In the debate comrades generally believe that since the 3d Plenary Session of the 11th CPC Central Committee, as accurate party lines, principles, and policies have been restored, drawn up, and implemented, and as,

in particular, reforms to the economic management system have begun to be implemented, China's socialist economic system is now gradually beginning to create and display its own special features. In general there are three fairly similar opinions about the manifestation of these special features.

The majority of comrades believe that the characteristics of China's socialist economic system are mainly manifested in three areas. A summary of the discussion illustrates that these main areas are:

(1) The characteristic of the structure of the system of ownership of the means of production. Practice proves that we still cannot construct the unitary "system of public ownership by all of society" of which Marx talked, nor the pure "system of ownership by the whole people and system of collective ownership" of which Stalin talked. (Footnote 25) (Xue Muqiao "Construct Socialism With Chinese characteristics," HONGQI No 19, 1982). The level of the productive forces in China is very low and it is multi-layered. There is a great deal of imbalance between the towns and the countryside, between different regions, and between different departments, and the country had a poor foundation to start with and an enormous population, and it still has "the question of employment which temporarily cannot be contained within the publicly owned economy," and all this determines that the structure of the system of ownership must be diversified in form, in other words it must be constructed as "an ownership structure which involves the mutual coexistence of diversified forms of economic ownership" (Footnote 26) (Hua Dazhen "How to View the Construction of Socialism with Chinese Characteristics," FENDOU, No 12, 1982), and which takes the economy under ownership by the whole people as central and whose basic economic form is the system of ownership by the whole people and the system of collective ownership, and which also is supplemented within specific limits by a system of economic ownership by individual workers. Even within this system of ownership one can include all kinds of state capitalist economies. (Footnote 27) (Wang Shuyun "A Socialist Economic System with Chinese Characteristics," CAIJING KEXUE, No 3, 1983). This structure of the system of ownership is suited to the development of China's productive forces and is also suited to the various needs of the people both in the cities and in the countryside and it helps solve the problem of labor employment. It "is the materialization in China of Marxism's general principles concerning the socialist implementation of the system of public ownership," and "it corresponds with the situation in China," (Footnote 28) (Liu Bingying "Construct a Socialist Economy with Chinese Characteristics," ZHONGGUO DIZHI BAO, 21 October 1983), and "it is the Chinese characteristic of this structure of the system of ownership." (Footnote 29) (Ren Wei and Wang Bingkun "Construct Socialism with Chinese Characteristics," RENWEN ZAZHI, No 4, 1983)

(2) The characteristics within administration and management and the system of distribution. In the past people believed that "as long as we construct a system of public ownership it will correspond entirely with the development of the productive forces." This was incorrect, and the problem is that we still have to "solve the problem of relations between people, relations of distribution, and those links within the administration and management system which do not correspond with the development of the productive forces." (Footnote 30) (Lan Bingjie "The Road To a Chinese Style of Socialist Economic Construction As I Understand It," HUBEI CAIJING XUEYUAN XUEBAO, No 4, 1983). Since the 3d Plenary

Session of the 11th CPC Central Committee we have managed in agriculture to "smash the former tendency to copy the old methods of unified management, centralized labor, and workpoints which were used for long periods of time in certain other countries and we have implemented various different forms of contract responsibility system with payment linked to output." (Footnote 31) (Ren Wei and Wang Bingkun "Construct Socialism with Chinese Characteristics," RENWEN ZAZHI, No 4, 1983). "By closely integrating 'work' with 'earnings' we have managed even more to embody the principle of distribution according to labor." In industrial and commercial enterprises we have "smashed the eight grade wage system centered around payment by the hour" and we have implemented various kinds of "profit and loss responsibility systems thus giving enterprises a certain amount of autonomy" and this to a certain extent has created "management-style enterprises." (Footnote 32) (Jing Ziyu "Construct Socialism With Chinese Characteristics," NEIMENGGU RIBAO, 18 November 1983). This kind of responsibility system is necessary in the present stage of socialism in China and as long as labor remains a means of life, as long as various differences remain, as long as there are still commodity relations and distribution according to labor, then "the various forms of economic responsibility systems in various different kinds of business and enterprises must exist." The implementation of this kind of responsibility system is not only a development of the use of the principle of distribution according to labor in China, it is also a one-time "revolutionary reform" for production relations and economic management sciences. "It integrates responsibilities, rights, and interests, and involves a unity of production and distribution and a unity of production and management." It is the best form by which the duties towards society that laborers should perform are integrated with individual interests. "It is an effective way of improving labor productivity," and "it is the best means by which we can give full expression to the superiority of socialism." (Footnote 33) (Lan Bingji "The Road to a Chinese Style of Socialist Economic Construction as I understand It," HUBEI CAIJING XUEYUEN XUEBAO, No 4, 1983). Practice proves that the forms of management in the responsibility system correspond with the state of the productive forces in China and "correspond with the multi-layered system of ownership upheld in China which centers around the state-run economy under the ownership of the whole people," and that they represent "pioneering work in China's socialist construction," and are "an outstanding special feature of China's socialism." (Footnote 34) (He She "Construct Socialism with Chinese Characteristics," NINGXIA RIBAO, 30 October 1983).

(3) The characteristics in the form of planning management. Socialism must involve the implementation of a planned economy but in international reality there are many different forms of socialist planned management. In view of the actual situation in China, we proposed the principle of "the planned economy as central and market adjustments as auxiliary" and "the implementation of planned management which integrates command planning, guidance planning, and market adjustments." (Footnote 35) (Wu Zhenken "Take the Chinese Road of Modernization and Construct Socialism With Chinese Characteristics," NINGXIA RIBAO, 16 November 1983). This thus means carrying out command planning for the production and distribution of those means of production and means of subsistence which are closely linked to the overall economy. It means carrying out guidance planning, mainly in the form of economic levers and readjustments, for many products and enterprises, while allowing enterprises to regulate production of all kinds of

small and general products on the basis of market demand, and not include these in state planning. Both command planning and guidance planning must correspond with reality and there must be a clear differentiation of their spheres and limitations. There must be a conscious use of the law of value and a use of economic levers to guarantee the realization of state economic planning. (Footnote 36) (Hua Dazhen "How to View the Construction of Socialism With Chinese Characteristics," FENDOU, No 12, 1983). Linked with this is the implementation of an integration of central and regional management to give enterprises a certain amount of autonomy. In this way the state can be assured of being able to directly grasp and take control of necessary material and financial resources so that the national economy may achieve planned, proportional development, and so that there may be guarantees for the centralized unity that the state needs while at the same time giving regions, enterprises, and departments suitable space for flexibility. This form of planned management "is a form of management which corresponds with the situation in China" and not only "does it correspond with the system of ownership in which public ownership is central and various diversified forms of ownership are permitted," it also "corresponds with the condition of China with its vast territory, large population, enormous differences in the natural resources of different regions, imbalances in economic and cultural development, and vast differences in requirements." (Footnote 37) (Lan Bingjie "The Road to a Chinese Style of Socialist Economic Construction as I Understand It," HUBEI CAIJING XUEYUAN XUEBAO, No 4, 1983). In conclusion then, the form of management which takes the planned economy as central and market adjustments as auxiliary was proposed by "starting out from the reality of the mutual coexistence of diversified economic forms in China and the existence of the commodity economy." (Footnote 38) (Jing Ziyu "Construct Socialism With Chinese Characteristics" NEIMENGGU RIBAO, 18 November 1983). It is the product of the integration of the basic principles of Marxism with the concrete situation in China and it has Chinese characteristics. Making planned economy central upholds the basic principles of Marxism while the auxiliary role of market adjustments reflects the special situation in China. (Footnote 39) (Ren Wei and Wang Bingkun "Construct Socialism With Chinese Characteristics," Renwen Zazhi, No 4, 1983).

There are some other comrades who believe that apart from being manifested in the aforementioned three areas, the special features of China's socialist economic system are also manifested in the handling of the relationship between state construction and improvements to the people's standards of living, and the ability to "give equal consideration to key construction with centralized funds and also to improvements in the people's standards of living." Our principle is "both to reflect the common traits of socialism and also give expression to the national tradition for arduous struggling," and it is this which gives us our special features. (Footnote 40) (Zhang Yi "What Is Socialism With Chinese Characteristics?" JINGJI RIBAO, 8 October 1983).

Other comrades believe that the characteristics of China's socialist economic system are not manifested in these three or four areas but are manifested in two areas. For example some comrades say that the universal and fundamental characteristics of socialism are all universally applicable to all socialist countries, while individuality is the materialization of these characteristics during the process of socialist development in each country. Furthermore, in our country's present stage, the materialization of these characteristics has taken on a rich, varied, and flexible form and has displayed the characteristics of China. Thus as far as the economic system is concerned, "the

materialization in this present stage of the planned and proportional development of the national economy is manifested in the way that the planned economy is central and market adjustments are auxiliary." (Footnote 41) (Zhang Feng "The Road and the Target," XUEXI ZAZHI, No 9, 1983). No mention has been made of what other aspects the characteristics of China's socialist economic system manifest themselves in.

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NATIONAL POLICY AND ISSUES

JINGJI YANJIU ON ECONOMIC FUNCTION OF CITIES

HK160321 Beijing JINGJI YANJIU in Chinese No 5, 20 May 84 pp 30-33

[Article by Gu Zongcheng [7357 1350 2763] of the Szechuan Provincial Social Science Research Unit: "On the Economic Function of Cities and Industrial Management in Cities--written in February 1984]

[Text] Cities are the product of the development, up to a certain stage, of the social productive forces. The accelerated development of modern productive forces and the socialized process of production are realized through the combination with the world's urbanization process. Hence, studying the economic function of cities and promoting the development of modern social productive forces constitute an important lesson imposed on us by the four modernizations.

1. Determining the Economic Function of Cities from the Systematic Character and Level-By-Level Character of the Modern Productive Forces

Socialist countries exercise the function of organizing and controlling the economy but in the past people treated this function as meaning that enterprises must be subordinate to a certain administrative organ and that administrative organs at various levels should take the place of the enterprises in directly exercising their decisionmaking power and power of command. As a result, this has greatly curtailed the development of the enthusiasm and initiative of the enterprises and also curbed the horizontal development of their economic relations. After several years of restructuring and probing, people have increasingly come to understand that this system of control over the enterprises does not conform with the special features of the internal economic relations under the system of ownership by the whole people at the present stage of our country. Expanding the decisionmaking power of the enterprises will culminate in the enterprises assuming in a relative sense the responsibility for their own profits or losses under the guidance of the united plan, policies, and guidelines of the state.

At present, certain localities in our country have begun the formation of economic zones with cities as centers or enforcement of the system of cities exercising control over the counties. They have turned over to the cities the management of enterprises found to be suited to the cities' management and control. This being the case, how should cities control the economy and industry? This will require, first of all, an analysis of the special features of the modern productive forces in order to ascertain from them the place and role of the cities.

Modern productive forces constitute a ponderous and complex system. In a modern society, each and every factor that goes into the formation of the productive force is an offspring system of the parent system of the productive force. Furthermore, this relatively complex system has the special features of a structure with many levels or stages. Modern productive forces have at least three levels: The first level comprises the most basic factors for the formation of the productive force, such as the worker, means of labor, and the objects of labor all of which separately form their own systems. The second level embodies various kinds of measures and systems which ensure the normal progress of social reproduction. Such as the transportation system, energy system, water supply and conveyance system, postal and telegraph communications system, system of subsidiary facilities, and so on. As for the various factors or systems comprising the third level, such as education, science, management, news and intelligence, although they do not directly or actually compose the productive force, they can enable the various factors and systems under the first level and the second level to maintain themselves in the best condition and to play an even bigger role. The direct union into an actual productive force of the basic factors of the productive force at the first level is principally organized and borne by the individual enterprises. This will be all the more so after the enterprises under the system of ownership by the whole people have enforced the system of bearing the responsibility for their own profits and losses. Following the development of social division of work and the advancement in science and technology, the position and role of the various factors or systems under the second level and the third level will become increasingly important in social production and the number of various kinds of enterprise units in these two stages will increase. The extent and efficiency of their development will determine, to a very large extent, the level and speed of the development of the social productive forces.

The social productive force is not formed by the simple addition of the productive forces of the various enterprises. Rather, it is a composite body of the various types of productive forces of the various economic departments and localities. In the organization aspect of the various factors of the productive force, that is, in the rational distribution of the productive force, cities constitute a very important level. This is because, first of all, a rational distribution of the productive force is tantamount to a rational distribution of the national economy. To perform this distribution well, the key lies in the correct demarcation of the economic zones with cities as centers and making the structure of the localities rational. The organization and enforcement of the various systems of the second and third levels of the modern productive force principally depend on society for their execution. Here, society embraces the state which is the first grade and the highest level and which plans the rational distribution of manpower, funds, and material resources between the various departments and the establishment of a nationwide communications, postal and telegram network and systems of energy supply and water supply. Society also includes cities which are the concrete economic and social bodies. In fact, from a certain viewpoint, this level of cities is even more direct and more important because cities serve as the centers for organizing and establishing many basic measures and enterprises in the fields of education, science, technology, and information which play an important role in socio-economic development.

Taking as a start the above-mentioned special features of the modern productive force and the objective progress of their development, the economic function of cities is first of all manifested in the rational organization of the productive force. Government organs, in their capacity as organizers of cities and acting as their representatives, should devote their efforts to planning and organizing well the basic measures for production and the basic measures for living. They should do the utmost to develop various educational, scientific, and cultural enterprises and to develop a combined system of different forms of scientific and technological cooperation with scientific and technological production. In the situation today of information being able to be directly converted into social wealth, it is all the more important to perform well information collecting work and to develop the information industry. Of these Measures, some are realized through the formulation of plans for scientific and technological, economic and social development to be undertaken in conjunction with medium and long-term plans and annual plans while some must be implemented by means of economic, administrative, and legislative tactics.

II. Fostering a Rational Structure of Enterprise Communities

Hundred and thousands of enterprises of varying scales and nature are congregated in the cities, forming one enterprise community after another. Their differences are determined by their surrounding natural resources, geographic location, communication conditions, technological level, social composition, cultural attainment and other conditions. A harmonious and rational community structure of enterprises can improve the labor productivity rate, generate new productive forces, and enable the speedy development of various projects.

Whether the structure of a community of enterprises is rational or not concerns the two-fold problem of quality and quantity. On the side of quality, it includes the enterprise's trade structure, scale structure, organizational structure, technological structure, structure of products and structure of the ownership system; whereas on the side of quantity, it refers to the size and scale of the enterprise community, that is, the dimensions of the cities.

The kind of trade structure that an enterprise community in a city can possess is determined by many objective economic and social conditions, such as resources, communication facilities, geographical location, and so on. Differences in the trade structure have generated different types of cities such as comprehensive types of industrial, heavy industry, light and textile industry, petroleum, iron and steel, motor vehicle, commercial, and science and education cities and so forth. The scale structure of enterprises refers to the liason and proportionate relationship between the larger, medium-sized, and small enterprises. A rational proportion of large medium-sized, and small enterprises is beneficial to the full utilization of various kinds of resources. The organizational structure of enterprises refers to the degree of specialized cooperation and to the organizational degree of the enterprise. Rationality of the scale structure and organizational structure principally depends on people's understanding of the objective economic process and the extent of their organization. Technological structure is determined by the degree of man's understanding of the important position and role of science and technology in socio-economic development, and is also determined by the development condition of the scientific, research, educational and information enterprises and also by the extent of scientific and

technical cooperation. Some cities, though comparatively weak in scientific and technical strength, have, because of their good performance in scientific and technological cooperation and benefitted by the strong technical backing of higher institutions of learning and scientific and research organs in the whole country, managed to bring about an improvement in the technological structure of their enterprises. To a very large extent, the structure of products is determined by the technological structure in general. Changes and rationalization of all these structures principally depend on the leadership of the cities to intensively carry out investigation and research, judge the direction of the technological, economic and social development, assess the position occupied by the city in the development of the locality and of the country and thereby determine the strategic guideline for development of the city and the economic zone pursuant to the objectives of conforming with the objective conditions, possession of special characteristics, and being at the same time practicable. Mini-economic units can hardly perform tasks of this kind.

As for the quantitative problem of an enterprise community, this will have to be solved by the study of dimensional economics. A study of dimensional economics necessarily involves the several levels of the enterprise, the united body, cities and economic zones. The dimensional economics of a city may also be called the dimensional economics of an enterprise community. The dimensions of the economy of a city and the extent of the congregation in the city are determined by the following factors: 1) natural conditions, such as the variety, quantity, and magnitude of resources; 2) scientific and technological conditions, including natural sciences and social sciences and the relevant production technique and management technique; 3) economic conditions, including the source and amount of funds, condition of labor supply, size, proximity, dispersal or centralization of markets, supply system of raw materials, condition of communications and transport, and condition of the technical cooperation system; 4) social and political conditions, such as nationality relations, military affairs and national defence, the political situation, and so on. Rational dimensions of enterprise communities and cities are beneficial to production, to people's living, and also to improvement of the economic results. The dimensions of cities determine the dimensions of localities and economic zones. Determination of the rational dimensions, aside from macroguidance from the state, depends on the leadership of cities to organize forces from various quarters to study and to offer a solution.

III. Starting From Developing the Harmonious Coordination of Urban and Rural Economies to Organize Well the Social Network

The countryside is the foundation for the development of cities and towns. Cities are the political, economic, cultural and educational centers. Under the socialist system, the relationship between the city and the countryside is that of mutual help and reciprocal support and promotion. The purpose of implementing the system of cities administering the counties and of forming economic zones with cities as centers is to bring the superiorities of both cities and the countryside into full play so that under a unified plan, both urban and rural economies can be better coordinated and developed. Hence, economic zones with cities as centers should be structures comprising economic zones of a developing nature and economic networks. Therefore, taking the current economic relations to start with and organizing economic networks to link together, in an organic manner, the cities and the countryside, constitutes a very important task and function on the part of the leadership of cities and towns.

Viewed from the actual conditions of our country, the coordinated development of urban and rural economies and the formation of economic networks may generally take the following two forms:

One form is, that as a result of the prolonged development of commodity economy, relatively closer economic relations are gradually formed between the cities and the countryside and between large cities and their surrounding medium-sized and small cities and towns. In the process of implementing the system of cities administering the counties and the formation of economic zones, the leadership in the cities, taking companies and other economic bodies as centers and through the formation of various kinds of economic network, can more closely weave together the economic activities of the surrounding countryside and the medium-sized and small cities and towns. For example, in Changzhou City, following implementation of the system of cities administering the counties, starting with the objective of the cities and towns jointly developing as a single body and based on the current economic conditions, the city and the countryside formed a unified plan to establish five economic networks, namely, industrial economic network, commodity circulation network, currency, credits and loans network, scientific and technological cooperation network, and communications, postal and telegraph (information and intelligence) network. Take for example, the industrial economic network. The 11 industrial companies of Changzhou City were taken as the centers and all the industrial enterprises in the city and three counties were, under varying conditions, organized into the network. Some became enterprises directly subordinate to the companies, some became enterprises cooperating with and supplying accessories and parts to the companies, while still others were mere parts of the relevant industry or trade. Due to the varying degrees of the economic relationship between these enterprises and the companies, the duties and function of the companies toward them are also of a varying nature. This has given rise to a structure of economic network with many levels.

The other form is that in the industrial development in recent years, as a result of industrial enterprises in the cities sending and distributing products to the countryside according to plan for processing, and helping the cities and the countryside to cooperate with each other in developing the economy, extremely close economic relations have been formed between the urban and rural areas. For example, since 1971, in Shandong Province, enterprises subordinate to Weihai City have been distributing, in a planned manner, all those parts, work procedures and unfinished products suited to processing in the countryside, to the communes and brigades in the countryside for processing. In 1982 alone, in the countryside surrounding Weihai City there were 235 brigades doing processing work on unfinished products and some 389 stations and over 13,000 people engaged in this processing work. In addition, there were some 21,000 engaged in embroidery work on linen goods. In the city, offices were set up to take charge of this processing allocation work, doing other jobs such as investigation and research, organization, and coordination. With cooperation of this kind between the urban and rural areas in developing the economy, the results have been that in a small town speedy development and good results have been achieved, thus greatly benefitting both industry and agriculture. An economic network has also come into being.

In short, regardless of whichever form is adopted, if we truly want to display the superiorities of the city and the countryside and to achieve the coordinated development of the urban and rural economies, the administrative leadership of cities and towns must, using various means and adroitly guiding action according to circumstances, establish various kinds of economic networks. Only on this basis is it possible to achieve further economic development. And only on this basis is it possible to resort to the use of economic measures supplemented by the necessary administrative measures and legislative tactics. Only economic zones formed in this way are truly economic zones of a developing nature. This is an important conclusion derived by us from summing up the rich experiences of history and reality.

IV. It Is Necessary to Start From Reinforcing the Economic Strength of Cities to Tightly Grasp the Two Links of Product Development and Technological Development

Whether or not an economic network can serve its purpose depends on whether or not the city has the necessary economic strength. So-called economic strength refers to the magnitude of competitive products a city has and to its own ability to cope with market changes. It also refers to whether or not the city has the ability to use economic means to attract the surrounding countryside to its fold. If a city has a large quantity of competitive products, then it has strong economic strength. If the products are competitive in the market and the manufacturers have no worries about their marketability, production will speedily develop. Once production is developed, the production capacity of enterprises in the city will feel the pressure from various kinds of restrictions about the work sites. The inevitable outcome is the demand to have the making of certain products or parts of products, and even certain work procedure, allocated to the countryside, while, in order to develop the countryside, it is necessary to develop industry, the construction industry, transportation industry, and so on. Combining the demands from both sides, the forming of an economic network becomes an easy task. On the contrary, if the products of a city lack competitive power and the city itself is unable to cope with changes in market demands and if the individual enterprises in the city themselves "do not have sufficient orders" and thus have surplus production capacity, what else will there be for distribution or dispersal to the countryside? Devoid of actual economic strength, the city itself cannot be well developed. How then can it offer attraction to the surrounding districts and the countryside? Hence, to enable the products to have competitive power and to improve the city's ability to cope with changes in market demands, it is necessary to tightly grasp the quality of the products, develop new products, replace old and antiquated products with new ones, and continuously improve the structure of the products. It is also necessary to rely on science and technology to continuously carry out technical transformation and to change the technical structure. Naturally, all these are, first of all, the affairs of each and every enterprise, but to depend on the enterprises themselves to isolatedly carry them out may result in their groping about blindly. At the same time, in modern industry, each trade and each enterprise cooperates with the other and depends on the other. If a product or a trade seeks improvement but lacks cooperation and coordination from relevant industries, trades, or enterprises, then it can achieve only half of the results through doubling the work done, and the economic results will not be good

at all. Our country is a socialist country which carries out the system of planned economy. It cannot allow the law of value and the spontaneous functioning of free competition to regulate the relations between the different enterprises and between the different industries and trades. Rather, administrative organs of the state and localities (including cities) should, in accordance with the demands of objective laws and by means of regulations, employ the method of systematic engineering to regulate these relations. Only in this way can savings in social labor be achieved and can better economic results be attained.

The experiences of many cities and towns have shown that in grasping technological advancement and technical transformation, it is necessary to start from developing products and transforming the structure of products. It is also necessary to seize hold of a number of products of superior quality and spur on certain industries and trades to follow suit. The industries and trades should take up not only these products but also other relevant products. Hence, it is necessary to have a good plan which takes the whole situation into consideration. In actual practice, some cities have come to realize that to perform a good job of planning the developing of products and advancement in technology, it is necessary to take products as the "dragon head," the trade or industry as the base, and enforce a "three-in-one combination," that is to say, combination of three dragons," namely: a dragon comprising development of products, development of technology, technical transformation, introduction of foreign technology, cooperation in tackling difficult problems within the country and training of personnel; a second dragon comprising the principal products and parts of the principal products and supplementary products; and a third dragon comprising scientific research units, higher, or specialized, institutions of learning, planning departments and intelligence departments. With these "three dragons" surrounding a central objective and performing their function in a superb manner, we can spur on the cities to do their various branches of work such as basic construction projects, scientific research, education and collection of information and intelligence. These experiences have carried a general and widespread significance. Leadership personnel of cities and towns should take good advantage of them, so as to improve the economic strength of their own cities.

Summing up the above, we may note the following points concerning the economic function of cities and industrial management in cities:

1. studying the scale and dimensions of the development of cities and economic zones; and starting from reality, determining the development tactics and guidelines so as to mobilize the strength and forces of various sides and strive for realization of the fixed development guidelines;
2. Taking into account the requirements for development of the modern productive forces, making up plans for various kinds of basic measures for construction, and organizing them for implementation;
3. Vigorously developing scientific, technological educational and information collecting enterprises and closely uniting them with production.
4. Displaying the strong points, avoiding the weak points putting the superior conditions into full play, readjusting the industrial structure, rationalizing

the structural dimensions of enterprises, the organizational structure, technological structure and structure of the products, and serving as organizer, sponsor, and builder of the best enterprise community units;

5. Taking the unification of urban and rural areas and their current economic relations as a start, establishing and developing various forms of economic networks; and

6. Grasping from beginning to end the two important stages of production development and technological development, spurring on and linking together the work on various sides.

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[Article by Zhu Tienzhen [2612 6993 5271], Du Meng Kun [2629 5492 2492] and Yang Dexiang [2799 1795 0686]: "An experiment in handling the relationship between the state and the enterprise--an investigation into the contract system of progressively increasing profit delivery to the state at the Tianjin Wireless United Corporation"]

I

The contract system of progressively increasing the profit remittances to the state is one aspect of an operation responsibility system created in the experimental process of expanding the decisionmaking power of state-run industrial enterprises. What exactly is its economic adaptability and what are the problems that should be studied and investigated in experimenting with it? The experiences from an experiment at the Tianjin Wireless United Corporation provide us with some guidance in our study of these problems.

The Tianjin Wireless United Corporation was formed in December 1981 by combining 2 enterprises subordinate to the ministry of electronics, 13 local state-run enterprises, and 6 enterprises under the system of collective ownership. It has a staff of 30,000 members. Its principal products are broadcasting and television articles, communications and radar navigation equipment, and their main component parts.

Soon after its formation, the corporation faced various difficulties such as a drop in the price of their products, the stores refusing to carry them in stock, tax increases, and a rise in interest rates on loans. Moreover, its component enterprises are widely scattered. Some of them suffered from poor management, some were backward in technology and craftsmanship, their products were sub-standard in quality but high in prices and they generally lacked the ability to compete with others in the market. At that time, it was thought that production in 1982 would drop by 40 percent compared with the preceding year. Fortunately, the corporation managed to promptly carry out bold but careful readjustment of the organizational structure of the enterprises as well as the structure of the products and to close, suspend, and shift to other production lines those enterprises which lacked the power of competition in the market. It strengthened specialization and coordination, turned out a number of new products, and took

initial steps of "shifting the operation track" to improving the economic results as the central task and converting to a "changed workstyle" which stressed both production and operation in lieu of simply stressing production. Overall consolidation of the enterprises and seeking technological advancement were grasped fiercely. As a result, not only was there no decline in production but the gross output value for the year increased by 7.2 percent over the preceding year. Profits and taxes increased by 57.3 percent, reaching the highest level in history.

In 1982 production did develop to a certain extent, yet, compared with the hidden potentials of the manpower and material resources of the enterprises and in view of the objective demands of economic development, a rather great disparity still existed. Obviously, how to further arouse the enthusiasm of the staff members and workers, put the capacity of the enterprises into full play and further improve the economic results were new problems which the corporation must resolve. What they actually did was to start from reality, learn from the experiences of the capital steel plant, grasp production on the one hand and reform on the other, improve and perfect the economic responsibility system and strive to achieve between economic results from restructuring. Beginning from 1983, the three groups of enterprises under the United Corporation adopted the measure of paying taxes in lieu of remitting profits, local state-run enterprises enforced the system of contracting for progressively increasing the profit remittances to the state, while enterprises under the system of collective ownership carried out the method of being responsible for their own profits and losses.

As approved by the people's government of Tianjin municipality, the system of contracting for progressively increasing the profit remittances to the state carried out the local state-run enterprises subordinate to the United Corporation is as follows: The amount of profit remittance in 1982, which so far reached the highest level on record, is taken as the base. Starting from 1983, an annual progressive increase of 10 percent is to be made, for a fixed period of 5 years.

Actual practice during a year's trial has shown that there was a great difference in the results depending on whether or not the contract system was in force. It was found that among the enterprises that carried out the three different methods of making profit remittance to the state, the local state-run enterprises which enforced the system of contracting for progressively increasing the profit remittance to the state had most obviously attained the best economic results. This was principally manifested as follows:

1. The increase in production was on a relatively large scale, improvements were seen in both the volume and quality of the output, and the competitive power of the enterprises was greatly enhanced. The output of television sets in 1983 increased by 20 percent over 1982 and the output of sets in January this year increased by 14.8 percent over the same period of last year; the increases in the respective periods in the output of image projecting tubes were 64.1 percent and 25.2 percent and in high-frequency heads, 119.9 percent and 110.0 percent. As for other products, such as receiving and recording machines, cores of sound recording machines, and loudspeakers, fairly large increases were also

made in output. In the case of many products, the cost of production was lowered while the quality of the products was improved. As for the comparable production cost of products, the enterprises subordinate to the ministry showed a decrease of 2.1 percent whereas among the local state-run enterprises the decrease was 9.4 percent. In 1983, the up-to-standard rate of the two types of image projecting tubes improved respectively by 11.89 percent and 8.65 percent over the preceding year. An increased production of 50,500 image projecting tubes of the proper standard was recorded; additional receipts from their sales amounted to 3.37 million yuan while the extra profits derived therefrom amounted to 1.01 million yuan. In 1983, the per unit production cost of the two types of special high-frequency mechanical adjusters was lowered respectively by 29.2 percent and 11.5 percent over the preceding year. The quality of these products has reached the advanced level of contemporary products and they are sold in large quantities to the Shanghai market. Its loudspeakers are well-known in the world market and large quantities of them have been exported. In 1983, of the products turned out by the United Corporation, 15 received commendation as being products of superior quality from the ministry and the municipality, while 1 received a silver medal from the state. According to statistics, of its products, 73 percent enjoyed brisk sales, 20 percent had average sales, and as for the remaining 7 percent, their sales were more or less slow or had stagnated. Of its gross output value, 30 percent consisted of new products, while products of good quality made up about 20 percent.

2. Profits and taxes increased along with production but surpassed production in growth rate. In 1983, the gross industrial output value of the corporation was 506.93 million yuan, an increase of 39.2 percent over 1982; receipts from sales amounted to 426.94 million yuan, an increase of 46.1 percent over 1982; realized profits were 57.46 million yuan, an increase of 68.7 percent over 1982. Within the corporation's total, the gross value of enterprises subordinate to the ministry increased by 25.6 percent but realized profits dropped by 19.[] percent (due to factors such as an insufficient number of job orders and stockpiling of products). On the other hand, the gross output value of local state-run enterprises under this contract system of progressively increasing the profit remittances to the state amounted to 254.32 million yuan, an increase of 50.7 percent over 1982; their gross sales amounted to 236.38 million yuan, an increase of 70.3 percent; their realized profits amounted to 41.21 million yuan, an increase of 185.2 percent; their profit remittances amounted to 5.913 million yuan, an increase of 26.8 percent, and the amount of their sales taxes was 11.78 million yuan, an increase of 98 percent. Moreover, they repaid bank loans amounting to 10.03 million yuan. As for the profit rate on their output value, in 1982, it was 12.1 percent but in 1983, 20.8 percent.

3. Technical advancement of the enterprises was promoted while the quality and standard of the enterprises themselves were enhanced. Following the enforcement of the contract system for progressively increasing the profit remittance to the state, the United Corporation and its subordinate plants enjoyed a relatively larger degree of decisionmaking power over the use of the self-retained portion of their profits. This has created advantageous conditions for speeding up the technical progress of the enterprises. In 1983, municipal government sanctioned altogether 27 projects of the United Corporation on the technical transformation and on the introduction and importation of foreign technology and equipment. In

the same year, the corporation signed nine agreements on the importation of technology. At the same time, the populace were mobilized to take part in technical renovation activities. Over 4,000 technical renovation projects were carried out, of which 152 were big and important ones. Relatively great progress was also made in the development of products and of new products. Last year, 144 new projects underwent trial production and of them 77 products have now entered into production. The output value of new products and profits from new products made up respectively 30 percent and 27 percent of the United Corporation's gross industrial output value and profits. It is planned that from now on, trial production of 100 products will be conducted each year, from which 50 projects will be put into operation each year, and that reassessment of the products will be carried out once every 3 years so as to satisfy the demands of the domestic and foreign markets. In order to accelerate the steps in technical advancement, the corporation paid special attention to improving the quality and standard of the enterprises, and to the training and education of the staff members and workers in the fields of politics, culture, technology and business. The corporation plans to use a portion of its profit-retention funds for the purpose of establishing a training center. Its many subordinate plants have organized various kinds of training classes following the principle of suiting measures to local conditions. As a result of the attention paid to improving the quality and standard of the enterprises and to strengthening the management and control of the enterprises, in 1983 the labor productivity rate of the whole staff of the corporation improved by 35.6 percent over 1982.

4. The standard of living of the staff members and workers has been improved, and the spiritual aspect as a whole has changed for the better. Since the enforcement in 1983 of the contract system for progressively increasing the profit remittances to the state, the United Corporation and its enterprises have retained collective welfare funds amounting to 6.276 million yuan, equivalent to 26.7 percent of their total profit-retention; in addition, they have retained 3.39 million yuan as bonus funds for the staff members and workers, equivalent to 14.4 percent of their total profit retention. The collective welfare funds are principally used on building dormitories for the staff members and on other welfare measures. Of the 31 local state-run enterprises, 8 had not built any dormitories for the staff in the 20 years since their establishment, but last year 6 began to build, or buy, housing quarters. In 1983, the whole corporation started construction of some 6,750 square meters of dormitories (5,050 square meters completed during the year), bought some 7,200 square meters of dormitory buildings, and began to solve the housing problem for a portion of its staff members and workers. It plans to build, from now on, some 10,000 square meters of dormitory space each year, and to strive for the objective that within the next 5 years the average dormitory space available to each family member of the staff members and workers will increase from the present 2.2 square meters to 4 square meters. As a result of the large-scale increase in the realized profits and taxes, the level of bonus in the local state-run enterprises has generally increased. In 1983, compared with 1982, the increase per person was equivalent to 0.45 of a month's standard wages. At present the corporation is still relatively weak financially. It may still meet with many difficulties in solving problems such as the long-standing shortage in

dormitory quarters and other vital interests of the staff members and workers. However, because there is now a clear understanding and demarcation between responsibility, power and benefit, and the appearance of the enterprises has made continuous changes, the spiritual aspect of the staff members and workers has likewise turned for the better. The extensive masses of staff members and workers have a firm confidence; their zeal for work is multiplied and there has been a continuous emergence of advanced individuals and advanced units.

Naturally, the above-mentioned notable results achieved by the corporation in 1983 were related to many objective factors such as the good foundation of work laid several years ago, the advantageous conditions of the market, and a portion of the newly increased production capacity being put into full operation. For example, take the imported production line for image projecting tubes. In 1982, it was still in the trial production stage but in 1983 it went fully into operation and the newly-increased profits amounted to 10 million yuan. Nevertheless, it cannot be denied that since implementation of the contract system for progressively increasing the profit remittances to the state, the enterprises and staff members and workers have truly become masters of the house and, as a result, their enthusiasm has been greatly enhanced. The enterprises have felt that they have both motive power and force of pressure. First of all, their common responsibility which must take top priority is to ensure fulfillment of the state plan and the proportionate and steady increase in the profit remittances to the state. At the same time, they can, in relatively independent manner, arrange for the technical transformation and production development plans of the enterprises. Moreover, they can, within the area fixed by the state, internally enforce the economic responsibility system which combines responsibility, power, and interests and carries out the principle of distribution according to work. This has vastly aroused zeal for production on the part of the staff members and workers. The wireless basic materials 5th plant succeeded in 1983 in achieving the highest level of realized profits on a per-capita basis among the same industry and trade in the whole country and in Tianjin. In the case of the Bohai Wireless Plant (a relatively large component unit of the United Corporation), its original equipment and craftsmanship could not meet the demands of production development and the plant itself had been on the verge of suffering heavy losses. In 1983, following enforcement of the contract system of progressively increasing the profit remittances to the state, the whole plant became of one heart and mind. It followed the production development plan mapped out by the corporation and exerted utmost efforts on a number of products such as radar and recorders. Because there were new varieties of products and because of their good quality, they were welcomed by the users. Scores of its products also managed to open up new channels of export, netting 9 million yuan worth of sales which amounted to 30 percent of the gross value of sales of the whole plant. Compared with the preceding year, its gross output value increased by 25 percent and realized profits increased by 170 percent.

Practice has shown that the nucleus of restructuring the industrial management system and the key to its success or failure lie in handling well the relations between the state and the enterprise, in arousing the enthusiasm of the staff members and workers, and in making them truly the masters of the enterprise. This kind of management responsibility system of contracting for progressively increasing the profit remittances to the state can more readily arouse enthusiasm

for production and operation on the part of the enterprise, the staff members, and the workers. It helps to speed up the technical progress of the enterprise and provides the enterprise with greater motive power and vitality. In our opinion, this form can serve as a measure to handle the relations between the state and the enterprise. Concurrent with full implementation of the system of taxes in lieu of profits, we should allow a small number of enterprises, which have the necessary conditions, to try out the new system so as to provide some experience for restructuring the industrial management system.

II

We may not ask, in implementing this contract system of progressively increasing the profit remittances to the state, what are the conditions required and to what type of enterprise is it best suited? Judging from the actual practice of the Tianjin Wireless United Corporation, in general the following points may be noted:

First, the production conditions of the enterprise must be relatively stable, its supply of raw materials and mobile power must be fairly well ensured, and its products must be marketable. In this type of enterprise, production does not rise or fall sharply, but grows at a steady pace conforming to social needs. As for the size of its realized profits, the ministry of finance and the department in charge should have a fairly good knowledge; hence the basic contracting figure fixed by them is closer to reality. Enterprises whose products are antiquated in style, sell well, and are usually stockpiled should not adopt this form, that is not until they have effectively shifted to other production lines.

Second, when the enterprise concerned is in sore need of development and its products play an important role in promoting technological advancement. For example, in the case of certain enterprises in the electronics industry and the machine-building industry and certain industrial enterprises which have already laid a firm foundation, whether their technological progress is fast or slow has a bearing on the modernization progress of various departments of the national economy. Hence, it is possible to selectively proceed with experimenting on the contract system of progressively increasing the profit remittances to the state among these enterprises, so as to accelerate their technical progress. In selecting the Tianjin Wireless United Corporation to carry out this form of contracting, Tianjin municipality had in mind the objective of helping Tianjin's rather weak electronics industry and trade to develop more speedily. Although only one year has elapsed since the enforcement of this system, it has already greatly aroused the enthusiasm of the enterprise to earnestly strive for technological advancement and has also played a useful role in promoting the technical progress of industries and trades which need electronics products.

Third, a small number of enterprises still have antiquated equipment and are backward in craftsmanship. Although they are in sore need of technical transformation, the state is temporarily unable to provide them with much financial help. In the case of these enterprises, relatively more effective efforts should be made, after enforcement of the contract system, to allow them to use the major portion of their self-retained profits on technical transformation. As can be seen from the Tianjin Wireless United Corporation, it has planned to depend on

the enterprises to make use of self-raised funds and/or loans to introduce and import 29 technological projects and to cooperate with the commission of science and technology and in industry for national defence on the undertaking of two projects, all during the sixth 5-year plan period. By 1990, it will undertake the technical transformation of its 21 subordinate enterprises and strive to triple their industrial output value and to quadruple, or more, the profits. This not only will stabilize the revenues of the state but also will bring good technical and economic results to society.

Fourth, some enterprises, after restructuring, have acquired a relatively strong leadership team and their production, management, and operation are in a fairly good condition. If an enterprise wishes to restructure itself and to become suited to the demands of modernized large-scale production, it is absolutely necessary to break from old and traditional concepts and [word indistinct] and conservative practices and to procure a strong leadership team which is revolutionary, intellectual, has good workstyle, is young and physically strong. In particular, after enforcement of the contract system, an enterprise must take the proper road and avoid byways or crooked ways, dishonest practices, and falsehoods. Growth of the profits of an enterprise must be built on a firm foundation of improving the labor productivity rate and improving the economic results. It cannot be obtained from depending on taking "ready made food" (advantageous conditions in resources, energy, raw materials and prices) or on "food of a patronizing nature" (enjoying certain special treatment). It cannot be obtained from violating the state plan or from reaping private profits through harming the state and the consumer by fair or foul means. Concerning all this, it would not work if we were simply to issue a mere call and leave the subject matter to the inspection and supervision by the relevant departments in charge. Rather, it is necessary to depend on a good leadership team for the enterprise who, in their capacity of representatives of interests of the enterprise and of the staff members and workers on the one hand and of the interests of the state on the other, can strictly implement the relevant policies and statutes of the party and of the state. Otherwise, the outcome will be disastrous.

In our opinion, be it a large-sized backbone enterprise or a combination of medium-sized and small enterprises formed into a specialized and united corporation, provided it has the necessary conditions and subject to approval from the upper level, it can selectively be employed as a trial point for implementing the contract system of progressively increasing the profit remittances to the state. This is beneficial to ensuring the stability and increased yield of the revenues of the state and also to the correct handling of the tripartite relations between the state, the enterprise, and the staff members and workers. Moreover, there is little possibility of a major error being committed.

III

From the experiences of the Tianjin Wireless United Corporation in implementing this contract system, we can learn the following points:

First, the base figure for the contracting and the rate of the progressive increase should be advanced or reasonable.

The key problem in enforcing this system is that, first of all, we must rationally determine the base for the contracting and the rate of the progressive increase. It represents a concrete and conclusive point for correctly handling the relations between the state and the enterprise and for realizing the interests of the state, the enterprise, and the individual. These two figures cannot be set too low nor too high. They must ensure the stable growth of the revenues of the state and at the same time make it possible for the enterprise to comply after making due efforts.

In the case of enterprises enjoying a stable development in production, the base figure for contracting should be equivalent to, or slightly higher than, its highest level in history and the rate of the progressive increase in profit remittance should be determined in accordance with the demands of the state and the development of the enterprise. Only in this way will the enterprise have the motive power and impetus and at the same time feel the force of pressure. As for the conditions of a large-scale increase or decrease of profits resulting from objective factors, they should be suitably reduced or adjusted. For example, the Tianjin Image Projecting Tube Plant, a subordinate of the United Corporation, is a newly established organ. Its planned production capacity is 720,000 units a year. The plant went into operation in 1982. Its production that year was 332,000 units and the realized profits amounted to 3.25 million yuan. In 1983, its planned production target was 500,000 units and realized profits, 7.2 million yuan. This may be said to have envisaged a rather large increase in output. The results were: production of 550,000 units that year, and the realized profits, including those from the clearance sale of a small quantity of units from stocks in the warehouses, amounted to 13.82 million yuan, or 190 percent of the planned target for the contracting. After repayment of loans amounting to 6.27 million yuan, the retained profits of the enterprise were 3.07 million yuan, or 1,500 percent of the profit-retention target of 200,000 yuan originally contemplated under the contract. The profit remittance to the state amounted to 4.3 million yuan, being 430 percent of the profit-remittance target of 1 million yuan originally fixed. The plant's large-scale overfulfillment of the contract targets may be ascribed, in addition to the factors of subjective efforts made by the enterprise and its staff members and workers, to the factors of the planned targets being set a bit too low due to an insufficient understanding, at the time of determining the targets, of the possible production capacity of the newly installed equipment from state investments in the past few years.

In addition, in order to correctly assess the production and operation results of an enterprise, it is necessary to offset the influences of changes in price and in taxation. Hence, we must take as a basis the prices of the products or raw materials, fuels, and mobile power and the tax rates at the time of assessing the base figure for the contract. In the event of relatively big changes occurring, it is necessary to rationally assess again and readjust the amount of profit remittance or the base figure for the contract. In readjusting, it is also necessary to prevent the enterprises from taking into account only the adverse factors such as an increase in price of the raw materials. A fall in price of the finished products, and so on, and disregarding the factors which are advantageous to them, such as the capacity of the newly installed equipment, rise in price of the finished products, and so on.

After the base figure for the contract and the rate of the progressive increase have been fixed, then unless special adjustment is called for because of big changes in the above-mentioned objective factors, the contract should be airtight and the enterprise must fulfill it in every respect. At the same time it should stay fixed for a definite period, say 5 years for example. This will give the enterprise sufficient time to formulate its own plans.

Second, the enterprise should not only contract for a progressive increase in the profit remittance but should also contract for undertaking the technical transformation tasks sanctioned by the state.

When the enthusiasm of the enterprise and the staff members and workers has been fully aroused, we should at the earliest moment, carry out the technical transformation of the existing enterprises. This is fundamentally necessary and has a bearing on the development of the national economy and the improvement of the economic situation. concurrently with contracting for a progressive increase in the profit remittances, enterprises implementing the contract system for progressively increasing the profit remittances to the state should, and do, have the conditions for contracting for technical transformation tasks (naturally in the case of the enterprise being burdened with rather heavy technical transformation tasks, the state should provide them with support in the form of grants or loans). At the same time, the state, concurrently with sanctioning an enterprise to enforce this contract system, should also approve the technical transformation plan of the enterprise.

From the actual practice of the Tianjin Wireless United Corporation, we are elated to see that since enforcement of the contract system, technical transformation has become an in-born demand of the corporation and its enterprises. This constitutes a rather important change, and in fact this change has placed the problem of technical transformation on a firm footing. Because of the corporation and its component enterprises must maintain a sustained and large progressive increase in the profit remittances to the state, it is necessary for them likewise to maintain a sustained and large-scale progressive increase in the realized profits. To achieve this end, mere dependence on "floating wealth" cannot serve the purpose. Rather, we must proceed further and tap the "hidden potential of basic wealth." In other words, we must undertake in depth and in breadth to seek results from technical transformation. Meanwhile, following implementation of this system, the enterprises themselves will possess the financial power (actual strength) to carry out technical transformation. Thus this solves the problem relating to the enterprises lacking the motive power, pressure from outside, and actual strength to carry out technical transformation. Through enforcing this system, an enterprise can, on the one hand, ensure a stable growth of the revenues of the state and contribute to enabling the state to centralize its funds for the purpose of construction of the major projects; on the other hand, by means of arousing the enthusiasm of the staff members and workers, it can improve the economic results, make its own accumulation of funds, and carry out technical transformation, thus enabling the enterprise itself forever to stay young and vigorous. This may be said to be a good measure with two fold benefits.

Employment by the enterprises of their self-retained funds for the purpose of technical transformation, as with using appropriations from the state or bank

loans to carry out technical transformation, must also be included in the state's technical transformation plan as a whole. This will prevent undertaking construction work blindly or in a redundant manner. Enterprises which enforce the contract system of progressively increasing the profit remittance to the state are generally keen in looking at the results from investments. They are adept in careful calculation and strict budgeting and, seen from the angle of the enterprises, there is little likelihood of redundant construction or engaging in construction blindly. However, we must note that the enterprises, starting from microeconomic effects to begin with, can hardly make each and every decision conform to the demands of macroeconomic development. Moreover, because of various causes such as the poor quality of intelligence and forecasting, errors may at times be committed. Therefore, viewed from the standpoint of either theory or actual practice, there still exists the possibility of undertaking construction blindly when an enterprise carries out technical transformation and we should be alert to this possibility. An important measure to prevent this possibility from becoming a reality is to include the major technical transformation projects in the state plan and the plans of the industries and trades. Furthermore, it should be pointed out that the technical transformation projects of the enterprises cannot be too numerous within a stated period and the enterprises should act in accordance with their capability. In the case of big and important projects, we should first study their feasibility, hold repeated discussions about them, and firmly insist on working strictly to the prescribed procedure, embodying them in the state's technical transformation plan. Projects in the nature of capital construction should likewise follow the regular procedure prescribed for capital construction projects. This in reality is the logical premise for the enterprises to be able to put in little but to reap a large output and to improve the investment results. It is also an indispensable condition for the prevention of building blindly and for improvement of the economic results.

Third, it is necessary to correctly treat and handle the dialectical relationship between "big shares" and "small shares" in guiding and controlling the direction of use of retained profits of the enterprises.

In enterprises which enforce this contract system, as a result of their tightly contracting their responsibility to the state on the one hand and their ability to have a free hand in operation on the other, the enthusiasm for production on the part of the enterprises and of their staff members and workers has been greatly aroused. Many of the enterprises have procured large profits and after fulfilling their tasks of making the profit remittances according to the base figure set in the contract and the rate of progressive increase, they have obtained a "major share" of the newly increased profits. Take for example the 13 local state-run enterprises of the Tianjin Wireless United Corporation which carried out the contract system. In 1983, they earned profits amounting to 41.21 million yuan. According to the base figure for the contract and rate of progressive increase, their profit remittances to the state amounted to 5.9 million yuan. They repaid loans amounting to 10 million yuan, remitted to the state's energy and communications sinking funds 3.1 million yuan. These accounts show that they have really obtained the major share. Some comrades were thus drawn to the conclusion that this was "the greatest drawback of the contract system for progressively increasing the profit remittances to the state." Indeed,

how should we treat and handle this problem? In our opinion, it is a good thing, and not a bad thing, for an enterprise to strictly carry out the economic responsibility system, arouse the enthusiasm of the staff members and workers, tap its hidden potentials, energetically undertake technical renovation, lower the cost of production, improve the economic results, and, on the logical premise of ensuring the speedy increase of the profit remittance to the state, succeed in obtaining a large retention, or even the "major share," from the increased profit earnings. This is basically different from the practice of employing illegal means to retain the profits of the state or the practice of tax evasion. How should the "major share" obtained by the enterprise be handled? Principally there are two ways of handling it: the first method is that the state takes over the whole or the major share of the portion of additional retention derived by the enterprise. This will adversely affect the enthusiasm of the enterprise. The second method is to allow the enterprise to hold it subject to the provision that its use be under guidance and necessary control, with the assurance that the major portion (generally not less than 60 percent) be used in developing production and in technical transformation. This will arouse the enthusiasm of the enterprise. We advocate that the second method be adopted. Naturally, under special conditions, one method is to have the enterprise remit a part of its additional retention to the state. But this will produce the problem of "missing the original purpose of the contracting." Under ordinary conditions, it should not be adopted.

The second method mentioned above is adopted by the Tianjin Wireless United Corporation. The Economic Commission of Tianjin municipality has agreed with the corporation that of its retention, 70 percent will directly be used on developing production, including the making of new products and carrying out technical transformation. In this way, appropriations from the state will be correspondingly reduced, although in reality the fixed assets formed from the self-raised funds of the enterprise still constitute part of the properties of the state. Hence, seen in this context, in the final analysis the state is the beneficiary of by far the largest share. According to comrades of the Tianjin Wireless United Corporation, if this system is not enforced, in the long run the growth of production will be slow, and although the state obtains the larger share of the realized profits, what may eventually happen is that the large share obtained by the state may become smaller than its current small share, because the total amount of the profits obtained by the enterprise becomes smaller. This view is a reasonable one. Hence, concerning a "large share" and a "small share," they should not be looked at purely from the fact of the accounts but must be viewed from their essence and must be understood in a dialectical way. After temporarily obtaining a "big share," the enterprise proceeds to develop production and in the end will create more profits for the state and the state will be benefitted by an even bigger share. This is the underlying principle of "giving before taking." It is beneficial to the enterprise and to the state.

Fourth, in regard to the question of bonus, egalitarianism must be rejected. We should follow the principle that if "production grows by 1 foot, welfare will increase by 1 inch," thus enabling bonus to be linked with the growth of taxes and profits.

The bonus system is currently a rather sensitive problem among the enterprises. Under the condition of the labor wage system not yet having been restructured,

the bonus plays an exceedingly important role in realizing the principle of "each according to his abilities and distribution according to work" and in stimulating the enthusiasm of the staff members and workers. Hence, it is necessary to study the formulation of a correct method of granting bonuses. In our opinion, it is necessary to control the granting of bonuses but we should not adopt the singular or simple control method of always providing for a ceiling regardless of the localities or the enterprises. We should implement the principle of more pay for more work and should grant bonuses to those enterprises which, under the same conditions as others, have manifested a higher labor productivity rate, created more taxes and profits, and generally made larger contributions to the state. It seems that one workable method is as follows: Linking the bonus grant to the enterprise's realized profits or profit remittance to the state (but eliminating the influences of objective factors on the profits), that is to say, setting aside bonuses in proportion to the profit remittance to the state, or fixing a base figure for bonuses and making excess grants similar to the collection of the progressive tax. Enterprises which have not performed well in profit remittance to the state should be subjected to reduction or detention of their bonuses. The level of bonuses should be floating from top to bottom but should not be construed into supplementary salaries or wages. On the problem of bonus and profit-retention of an enterprise, we should study and solve it from the viewpoint of facilitating the development of the social productive force.

Fifth, it is necessary to carry out the conditions governing the contract system.

The conditions governing the contract system for progressively increasing the profit remittance, regardless of whether they were promised by the enterprise to the department in charge or vice versa, must all be carried out. This necessarily requires that the conditions must be appropriate ones. Conditions that are not appropriate cannot be fulfilled and will only be discredited by the people. The Tianjin Wireless United Corporation acted in real earnest in determining the form of the contract, the contract target, the rights of the enterprise, measures of punishment and award, and so on. However, due to the lack of experience, some of the terms governing the granting of bonuses or awards still need to be improved. For example, the "contracting agreement" provides: If in the case of a plan calling for profit remittance of 1 million yuan or more, there is an excess of 50 percent, and in the case of the plan calling for a profit remittance of below 1 million yuan, there is an excess of 75 percent, then in addition to giving the plant secretary and the plant chief a meritorious record of the first grade, an honor roll, and an increase of one grade in salary from the state, promotion and 1 year's extra pay will be granted to 50 percent of the staff members and workers. These conditions of bonus and award may appear to have been a little too high (for example the promotion and 1 year's extra pay to 50 percent of the staff members and workers). Last year, among the 13 local state-run enterprises, 11 reached the standard of receiving this high-level commendation and award, but due to various causes, this was not actually carried out. The reaction of the mass of staff members and workers was: "early in year, urging us to fulfill the tasks, the leadership made firm promises but following fulfillment of the tasks at the end of the year, the leadership failed to make good the promises." Naturally, this had adverse effects on the enthusiasm

of the staff members and workers. The plant chief who had announced these conditions to the staff members and workers felt particularly upset. This experience teaches us the lesson that the terms of the contract should be appropriate and practicable, that there must always be some ground or margin left, and the terms and conditions of the contract, once determined, must be fulfilled by all means.

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[Article by Hu Peizhao [5170 1014 0340] of the Economic Research Institute of Xiamen University: "On Socialist Commodity Cost"]

[Text] The definition of cost in socialist political economics in China is based totally on the capitalist concept and has made no progress theoretically. Engels made this criticism: "Political economics is in general satisfied in copying and using the terminology of industrial and commercial life, failing to see that this practice will confine oneself to the narrow scope of the concept that is shown by this terminology." (Engels: "Das Kapital," Vol 1, preface, English edition and "Das Kapital," People's Publishing House, 1975 edition, Vol 1, pp 34-35). I am of the opinion that the cost concept being used in China today is based on the terminology of industrial and commercial life. It is "an old feather" that needs to be shed and discarded.

Cost Price Represents the Irrational Sphere of the Capitalists

The purpose of capitalists in investing in enterprises is to exploit the surplus value of workers so as to constantly increase their capital. On the one hand, capitalists are well acquainted with business activities for making profits and the secrets of increasing capital. On the other hand, they are not aware of the necessity of distinguishing variable capital from fixed capital. For them, the capital that is used in the purchase of the means of production and the capital that is spent on wage laborers are all advance capital and this capital cannot but make profits. Consequently, the amount of the profit and the profit rate are all calculated on the basis of the total capital invested. Dividing the amount of money gained from the sale of labor products by the amount of capital invested gives the profit rate. This standard for calculating profit and profit rate "means the cost price of commodities to capitalists." (Ibid., Vol 3, p 30). The cost price represents all that has been consumed by the capitalists in producing the commodities. In the commodity price, the profit (surplus value) is created by workers without payment and without any cost to the capitalists. This part of the value that is created without expense will no doubt be excluded by the capitalists from production expenses and therefore it does not belong to cost. Capitalists are quite aware of what costs them and what does not in the process of production. Therefore they will spare no efforts in trying to save on the part that will cost them and will waste the

part that does not. Marx said: "If we investigate capitalist production alone and put aside the question of the process of circulation and excessive competition, we will find that capitalist production is extremely frugal of the labor that has been realized and materialized into commodities. On the contrary, the waste of laborers and their labor has far exceeded any production mode. Capitalist production has wasted not only flesh and blood but also nerve and brains." (Ibid., Vol 3, p 105). Therefore the cost price is based on whether it has cost capitalists; it is a derivation that has been separated from the commodity value. The existence of the cost price is based on the separation and contradiction between the facts of whether or not the commodity price has cost capitalists. Therefore cost price represents the relation between capital and wage labor. That is why Marx held that cost price only exists "for capitalists" and that "the method of including the part of the capital value in the commodity value that has been consumed in compensatory commodity production into the sphere of cost price... shows the particular nature of capitalist production." (Ibid., Vol 3, p 33). It is true that Marx used this sphere in "Das Kapital," but it in no way means that he wanted to regard this sphere as being correct. He just resorted to this sphere to explain the nature of such concrete forms as profits, production costs and average profit rate. His final aim was to deny the cost price and make people understand how irrational it is.

The sphere of cost price is irrational mainly because of the following three aspects. First, it has combined variable capital with fixed capital that have different roles in the process of increasing value. Consequently, it has covered up the real source of surplus value or profit and considerably reduced the rate of exploitation. Second, the sphere of cost price is the foundation for the formation of the vulgar theory of production expenses. It is because, according to the capitalists, the commodity production that has cost them represents the cost price that, consequently, the cost price has been mistakenly regarded as "the actual expense of the commodities themselves" (Marx: "Das Kapital," Vol 3, p 30) and "the real and inner value of the commodities." (Ibid., Vol 3, p 46). Third, the commodity price is considered the same as the cost price and consequently the profit is regarded as a concessional profit as well as the result of the commodities that are sold in the market at a price that is higher than their value. In this way, the source of profit is totally attributed to the additional payment from consumers and it is divorced from the workers' unpaid labor.

Therefore, it can be seen that the cost price which is rational seen from the point of view of the capitalists is in fact irrational and will give rise to various forms of false appearances and misconceptions.

The Sphere of Cost Is Also Irrational In Socialist Society

In socialist society, the cost price is called cost and its symbol is shown in the same form of C plus V. Since the cost price of the cost sphere is irrational in capitalist society, will it become rational and scientific in socialist society?

I believe that since commodity production still exists in socialist society, the source of value and the source of profit also exist. Therefore, it is also wrong to combine the capital that is used by enterprises to pay for the means of

production with the capital that is used for payrolls and call this combination cost. In "Das Kapital," Marx criticized this sphere because it made value and surplus value mysterious and therefore this cost sphere must in no way be used in socialist political economics. It is true that today we can in no way deny the Marxist theory of labor value and that in using the cost sphere of C plus V , we also understand the source of value and profit. But why do we still have to use this old and unscientific form to express a matter which we have acknowledged as being scientific? All political economics textbooks and other economics work in China today still use this sphere that has also been used in expounding economic accounting and economic results. Consequently, it seems that this sphere has become rational and scientific in socialist society. This situation shows that socialist political economics still maintains an old trace.

This question is not merely confined to the fact that the cost sphere has the above-mentioned three aspects of irrationality, but more importantly, the cost sphere has new aspects of irrationality in socialist society.

First, the capitalist cost price is based on the premise of the consistency between the formation of capitalist commodity value and the division of commodity value; but the formation of socialist commodity value is not consistent with the division of commodity value, and the same premise for the cost price does not exist in socialist society.

In capitalist society, both variable capital and fixed capital have already been defined before production begins and after production they will exist independently on the grounds of compensation. Under this condition, surplus value represents a part which is already known. Commodity value includes variable capital and fixed capital, and surplus value. Therefore on the basis of capitalist production, the formation of commodity value is consistent with the division of commodity price and they all represent fixed capital value, variable capital value, and surplus value. And the formula for this aspect is $W=C+V+M$. As C and V in the formation of value and the division of value are consistent in quantity and quality, therefore, the amount of the investment made will be compensated in the same amount. Contrarily, while C and V are fixed quantities, M represents a variable quantity. For example, if the capital invested is $80C+20V$, product value may be $80C+20V+20M$ as well as $80C+20V+25M$. The amount of surplus value depends on the scale of production, but the value of variable and fixed capital is fixed and will remain unchanged before and after production. Therefore, it is only natural that capitalists regarded C and V as an entity or cost. In the eyes of capitalists, the formation of commodity value is in fact $W=(C+V)+M$. The formation of the value of socialist commodities and the division of commodity value (which may also be called value distribution in socialist society) are not consistent either in quantity and quality. The formation of value can only include two aspects, and these two aspects refer to the old value that came from the means of production that were consumed and the value that has been newly created by the laborers. If this newly created value is represented by H , the formula for the formation of value should be $W=C+H$. Can this newly created value H be treated as the capitalist commodity and represented in the form of $V+M$? I do not think it can be treated in this way. It is because, first of all, the labor force under the socialist system is not a commodity while wages do not represent the changed form of the value of labor force. In the process of

production, we cannot treat the labor of workers as it is treated in capitalist production. That is to say, we cannot treat a part of labor hours as being used in producing the same value of wages and another part of labor hours in producing surplus value. We can only regard the whole labor hours of a worker's work day as representing the factor that is created by the same quantity of value. Secondly, workers' wages under the socialist system cannot be regarded as the same value for the purchase of labor force as in capitalist society. That is, workers' wages in socialist society cannot be defined in labor force trading market before production begins; they can only be defined after production as the result of the distribution according to work. The amount of consumer goods to be gained by workers can only be determined by the results of production (this is particularly apparent in peasants income). Therefore, the value newly created by workers can only be regarded as $V+M$ at the end of production and this aspect belongs to the sphere of distribution. As the newly created value will finally be divided into V and M , we cannot act perversely and regard the results of the distribution of value as the formation of value. Therefore, the formation of the value of socialist commodities must be returned to its original form and divided into two parts: the value of the change of inanimate labor and the value that is created by animate labor. It is neither necessary nor possible to divide the new value that is created by animate labor into the existing form of $V+M$.

Of course, following the completion of the process of production, the socialist commodity value must also be divided into C , V , and M (they are different from the three parts of the capitalist commodity price, only the symbols of the capitalist commodity price are used here). Of these three parts, only C represents a fixed quantity, and this means that the amount of the means of production consumed in the process of production must be compensated for in the same amount. The proportion between V and M is changeable. Sometimes, the proportion of V is higher and the proportion of M is lower and sometimes, the proportion of M is higher and the proportion of V is lower, depending on the situation of production. This situation is different from that in capitalist production. In capitalist society, both C and V are fixed and determined and limited by the value of labor force. No matter to what extent production has developed, workers can only consume the part of the means of production that is equivalent to the value of their labor force. Therefore, under the socialist system, the formation of commodity value is different from the division of commodity value. Suppose the formation of socialist commodity value is $W=100C+200H$, the commodity value can be divided into $100C+150V+50M$ and $100C+125V+75M$ and so on, depending on the situation of production and social needs. As the formation of the socialist commodity value is $W=C+H$ and the distribution of the value after realization of the commodities is $W=C+(V+M)$, V is only related to M and not to C ; therefore it is groundless to combine V which represents the results of the distribution of the value after production with C which is defined before the beginning of production. In analyzing the distribution of social gross product in "Critique of the Gotha Program," Marx regarded the part that is left after various forms of deduction as the means of production that are to be distributed according to labor; he did not consider V as representing cost or a key production element. Otherwise, Marx would deduct V in advance, as he did with C . Such an order of distribution by Marx is very enlightening in understanding socialist costs. But the theorists of the concept of the old cost in China have neglected this point.

Second, to regard workers wages or the value (V) of the means of subsistence for the consumption of workers as a key element of cost is in line neither with the nature of socialism nor the law of the movement of the cost itself.

In capitalist society, workers are "animate machinery" and "production tools with self-awareness;" ("Das Kapital," Vol 1, pp 629-632) therefore, to provide workers with the means of subsistence is like oiling machinery and feeding horses more fodder. Consequently, the value of the means of production and the value of workers means of subsistence are all part of the cost. Under the socialist system, expenses for the means of production and expenses for workers means of subsistence represent expenses with different meanings. The former represents the expenses on the means of production while the latter represents the expenses on the purpose of production. If V is combined with C, it means that the purpose of production is considered the means of production and this situation is contradictory to socialist nature. Seen from the point of the law of the movement of cost, it is also irrational to consider V as a cost. In capitalist society, the part of V which represents workers consumption, will not be increased even though production has developed. Therefore, following the improvement of labor productivity, the cost of individual products will decrease when the proportion between C and V decreases. But the situation in socialist society is different, workers' wages (including bonuses) will increase following development in production; and this situation in socialist society is different, workers' wages (including bonuses) will increase following development in production; and this situation is determined by basic socialist economic law. If wages are included in costs, the total cost volume will increase and decreases in the cost of individual products will slow down. If a socialist enterprise and a capitalist enterprise produce 200 pieces of the same commodity and they have the same cost of 100 (60C+40V), the cost of each piece will be 0.5. Now, the labor productivity of these two enterprises is doubled to increase output from 200 pieces to 400 pieces. Under this condition, the unit "cost" of the capitalist enterprise will decrease to 0.25, which means that the cost has decreased by 50 percent. In the socialist enterprise, workers living standards supposedly will be increased by 25 percent following the improvement of labor productivity. This means that 40V will become 50V, total "cost" will consequently be increased to 110, with a growth of 10 percent. Under this condition, unit cost is 0.28 and it means that compared with the capitalist enterprise, the "cost" has increased instead. The reason for the slowing down in the drop of the unit "cost" of the socialist enterprise is that wages are included in the "cost." In short, to include wages in "cost" is even more irrational in socialist society.

The Socialist Theory Of Cost Must Be The Theory Of Value

Since our present cost concept is irrational, does socialist commodity production have its own rational cost concept? Of course, it has. This rational cost concept was referred to by Marx in "Das Kapital" as the real and actual expenses in the production of commodities and these expenses mean labor consumption. Marx said: "commodities have made what is consumed by capitalists totally different in quantity from what is consumed in the production of the commodities themselves." "Marx: "Das Kapital," Vol 3, p 30). In addition, the latter is higher than the former. He said: "Capitalist commodity expenses are calculated on the basis of capital consumption, but actual commodity expenses are calculated on the basis of the consumption of labor. Therefore, the capitalist cost price of

commodities is different in quantity from the value of commodities or actual commodity cost price." (Ibid., p 33). These words of Marx make us understand the basic nature of socialist commodity cost. He clearly told us that to consider $C+V$ as the cost price is capitalist and impractical; the actual cost price is calculated on the basis of labor consumption and it is the commodity price. I think that the socialist commodity cost price must undoubtedly discard the impractical definition and absorb the practical definition.

It has been mentioned above that the capitalist commodity cost price is based on the contradiction between labor and capital. Capitalists regard the capital they have invested as a cost and workers also regard the expenses of their labor as a cost because these labor expenses in no way cost the capitalists. Seen from the point of the relations of capitalist production, such irrationality contains "rationality." But in socialist society, workers are masters of enterprises and the expenses of capital and the expenses of labor come from the workers themselves. The difference between these two forms of expenses is that the former is inanimate and the latter is animate; there is no dividing line between "cost" and "cost-free" as mentioned by Adam Smith. Why can the expenses for inanimate labor be considered a cost while the expenses for animate labor are neglected. It is because the primary importance for enterprises is to recover the "cost" and the secondary importance is profit. That is to say, the recovery of inanimate labor is put in the first place and the results of animate labor are put in second place (V is originally the part that is created by animate labor but it is here regarded as an abstract concept of wages). Some enterprises will be happy to be able to "maintain capital" and will rejoice to be able to make a profit on this basis. I think such a low demand on the economic results of business activities is related to the old cost concept.

Marx predicted that commodity production would not exist in socialist society; therefore, he only mentioned the "actual cost price" of commodities that is calculated on the basis of labor consumption and did not directly mention the question of the cost of the socialist society for our reference. But Marx and Engels paid very much attention to arranging, saving, and calculating the social labor hours in the future. Engels said in "anti-Duhring" that even though commodity production would not exist in socialist society, it would not be necessary to insert the question of value into this production. He said that "society must also understand the amount of labor that is needed in producing each kind of consumer good." ("Selected Works of Marx and Engels," "Anti-Duhring," vol 3 p 348). In the "theory of surplus value," Marx commented on the anonymous booklet "The Reason for National Difficulties and the Method for Solving Them" and he agreed with the view of the writer. Marx said: "Even if exchange value has been eliminated, labor hours will all along represent the body for creating wealth and the yardstick for the expenses that are needed in producing wealth." (Marx: "The Theory of Surplus Value," People's Publishing House, 1975 edition, Vol 3, p 282 of the 1949 edition of the same book published by the San Lian bookstore and translated by Guo Dali, the words "yardstick for expenses" in this sentence were translated as "cost yardstick"). All these words will help us understand that socialist commodity cost must include all the expenses that are needed to produce the commodities and these expenses mean all labor expenditures and in this way we will be able to form the concept of overall cost.

According to the Marxist theory that "in the final analysis, all economics will end in the economics of time," it is imperative to treasure both the inanimate labor hours and the animate labor hours that are yet to be materialized. As labor hours have been expended in the production of commodities, they must be recovered as a cost and effort must be made to save them. Seen from the point of view of the process of the production of value, animate labor is more important than inanimate labor. On the one hand, only animate labor is in a position to create value and increase social wealth, on the other hand, the change and preservation of the means of production depend on the concrete form of animate labor. Therefore, it is apparent that if we are able to recover labor expenses in the form of value, we will also no doubt be able to recover the expenses of inanimate labor. But the recovery of inanimate labor will not necessarily recover all the expenses of animate labor. Therefore, it is imperative for us to consider the expenses of the recovery of animate labor as the key aspects of our business activities and economic accounting. When we are able to grasp this link, we will no doubt be able to improve economic results.

The economic results of the business management of an enterprise must be measured on the basis of overall cost; if all the products of this enterprise can be marketed on the basis of their value (or production price), these products are up to standard in economic results. If all the products can be marketed above their individual value, they are in a position to recover all the expenses of animate labor and inanimate labor and with a certain profit. Under this condition, these products have achieved excellent economic results. If all the products can only be marketed below their individual value or part of the products can in no way realize their value, the money gained from the sale of these products will not be enough to compensate all the labor expenses that have been consumed in production. This means that this enterprise has losses and the extent of these losses in the economic results of this enterprise must be regarded as not good, bad, or worse. If the formation of the value of the total products of a factory is $W=60C+40H$ and the money gained from the sale of the products is only 80, then the 60C can be compensated, but as the remaining 20 is the same as the total wages that were paid previously, this means that the part that is distributed among workers is just enough to maintain their previous living standard. According to the point of view of the old "cost," the cost has thus been recovered. But according to the point of view of overall cost, this means that the factory has lost money; this is because 50 percent of the animate labor consumed has not been recovered. If the factory has 1,000 workers, this means that the whole labor of 500 workers for the whole year has been wasted. This is a serious waste! How can this be said to "maintain capital?" If the actual value is not 80 but 85 and if the calculation is made on the basis of the old cost concept, it would be alright; because according to this calculation, the factory makes a 6.25 percent profit ($5\div 60C+20V$) but behind this 6.25 percent profit there is a waste of 37.5 percent of the animate labor and of the animate labor expenses of 40 only 25 can be recovered. If we do not calculate in this way, there will be no way to see the seriousness of this problem. Therefore, it is imperative to calculate overall cost. The quotas of output value completed by factories in China today refer to the real value which is not in a position to reflect the amount of the consumed inanimate and animate labor recovered or wasted. In his speech to the work conference on national industry and transportation that was held in the spring of 1982, Comrade Zhao Ziyang said: "In talking

about economic results, we must first of all understand an important view, that is, we must produce more products needed by society with the minimum animate labor consumption and material consumption." He said: "To produce more products needed by society with the minimum consumption of animate labor and materials represents the need of the socialist economic law and the need of the law of the planned and proportionate development of the national economy." (HONGQI in Chinese, No 7, 1982, "On Several Questions On the Present Economic Work"). These words showed the necessity of calculating overall cost and the consumption of animate labor. Otherwise, we will not be able to know the real consumption of animate labor and economic results, nor will we be able to meet the need of objective economic law.

Technically, there are difficulties in calculating overall cost, but it can be basically done on the basis of historical materials, the labor productivity that has been reached, and the study of the situation of other enterprises. There are two methods for calculating overall cost. One method is to base the calculation on the existing value. That is to say, the value of individual products of various factories is regarded as the cost of the individual products. This cost is multiplied times the gross output and the result represents the general cost of a whole factory. Another method is to add the following three aspects: First, the value of the means of production that have already been consumed; second, total wages, and third, the profit that is calculated on the basis of the average wage profit rate in the same trade. The first item represents the expenses of inanimate labor and the latter two aspects represent the expenses of animate labor. And of these two methods, the latter is closer to the actual expenses of animate labor.

How is profit calculated? Profit represents a part of the value that is created by the workers' animate labor. And frequently the value which is created by the workers' animate labor does not accord with the realization of this value. Therefore to be precise, profit means the rest of the actual and realized value that is created by the workers' animate labor after this value is reduced by the value of the means of subsistence that have been consumed by workers. Seen from this point of view, the calculation of profit is the same as before. But if we study profit in connection with overall cost, there is a change. This means that profit and loss sometimes exist simultaneously. According to the point of view of the old cost concept, the existence of profit means the natural recovery of costs. Consequently, it would be ridiculous to say that a profitable enterprise is losing money. But according to the point of view of overall cost, the existence between profit and loss is not contradictory because the criterion to determine whether one is making a profit or losing money is whether all the consumed animate labor and inanimate labor have been recovered. The criterion for determining profit is whether there is any remainder after the newly created value is reduced by the workers' consumption. The different existence of different criteria is an objective phenomenon. The simultaneous existence of profit and loss represents the actual situation of the business of certain enterprises. If the total labor invested by a factory is 100, of which inanimate labor is 60 and animate labor is 40, the product value and the formation of this value is $W=60C+40H$ and the realized product price is 95, then, after compensation is made for the 60C of the consumed inanimate labor and the 20V that is distributed to workers for their consumption, the remaining 15M is the profit.

Seen from the point of view of overall cost, this factory lost 5 percent and the animate labor with a value equal to 5 cannot be realized. I term the percentage between total losses and total cost the cost lost rate that reflects the extent of the losses of inanimate labor and animate labor of factories and enterprises. And the formula is:

Cost lost rate equals cost value (the total value minus realized total value) divided by total value times 100 percent.

The calculation of the profit rate must include a wage profit rate and prepaid capital profit rate. To measure labor productivity by the wage profit rate represents the amount of the value that is created for society by a labor force, with the addition of the value that is consumed by it. Comparing this value with the average wage profit rate of the same trade enables us to judge the amount of the economic results created by the animate labor of an enterprise and in this way we will be able to tap the labor potential. At the same time, the wage profit rate can be used to measure the capacity of the enterprises to provide taxes on profits to the state. Seen from the point of view of enterprise management, it is imperative to calculate these two kinds of profit rates. They must exist and neither can be discarded. Therefore, to deny the original cost concept in no way means to deny the fact of prepaid capital. Since the introduction of the system of substituting taxes for the delivery of profits in particular, it has become more important to save prepaid capital and use it to greater effect. The only question is that this capital is no longer qualified to represent cost.

The use of overall cost quotas and the quotas of the cost lost rate calculated on the basis of the former is better able than the quotas of the old cost to reflect the economic results of enterprise business management. And with this method, it is difficult to cover up the fact of waste just because of the existence of profits, and in particular the waste of animate labor. With this method, it is also possible to curb fraud and deception. In their bid to retain more for themselves and their workers, some enterprises have intentionally reported less profits and most "costs," only to affect state financial revenues. As long as we are able to define the standard for awards and penalties for the cost lost rate, this unhealthy practice can be stopped. As the move of decreasing profits and expanding cost will raise the cost lost rate, it means that enterprises that carry out such practices will get more penalties and less bonuses. Therefore, no enterprises will carry out such practices. This situation shows the effect of the cost lost rate. To use the Marxist concept of the real cost and discard the old cost concept will enable enterprises to treasure labor and pay attention to labor results. And this helps to truly put all economic work on the track of improving economic results.

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[Article by Zhou Wnehua [0719 2429 5478] of Jiamusi City CPC Committee, Heilongjiang Province: "Enlightenment Gained From Learning From Six Cities In Raising Economic Results"---Passages within slantlines published in italics]

[Text] At the 12th Party Congress it was proposed that by the end of this century China should quadruple industrial and agricultural production value and the premise for achieving this glorious strategic target is to improve economic results. Since the 3d Plenary Session of the 11th CPC Central Committee, as the focus of work in China has been strategically shifted, economic work has begun a series of major transformations from being a guiding ideology to an actual policy and the core of this has been a move from previous ignorance of economic work to an emphasis on economic work. How can a medium-grade town such as Jiamusi adapt to these major changes both in macroscopic and microscopic terms? On the basis of investigations and research into economic development in each town we carried out studies and investigations into the six towns of Shashi, Yichang, Wuxi, Nantong, Chongqing, and Siping during May of 1983 and we obtained some extremely useful information. Below, we discuss our synopsis of questions relating to the improvement of economic results.

/1. The basis for improving economic results is to transform superiority in natural resources into a powerful economic superiority./ Exploiting superiority is an accurate principle in developing the economy. However, what is superiority? In the past we often tended to consider things too much in relation to one particular time or place and we did not give sufficient consideration to strategic and long-term targets. The result of this was that within one region natural resources appeared to be an advantage but in national terms they were not seen as an advantage or in any way superior. During our investigations of these six towns, one of the greatest points of enlightenment was the need to transform an area's superiority in natural resources into an economic superiority and this requires gaining a solid foothold in that specific area and, in addition, opening one's eyes to the overall situation. Only in this way can economic results be increased as can the speed of economic development be increased. From 1971 to 1982, the gross industrial and agricultural production value of Yichang increased from 135 million yuan to 1.1 billion yuan, an increase of 7.14 fold in 11 years, representing a sextupling of production value. From 1976 to 1981, gross industrial and agricultural production value in Shashi increased from 533 million yuan

to 1.58 billion yuan, a near triple increase in 5 years. In Nantong, gross industrial and agricultural production value increased from 1.2 billion yuan in 1976 to 2.35 billion yuan in 1982, doubling in 6 years. There are many reasons behind the relatively fast increases in economic development in these few towns and one of the most important is the fact that these towns have firmly persisted in starting out from reality, developing their advantages and avoiding their shortcomings, and giving full expression to the superiority of natural resources in each specific areas. Yichang, Shashi, and Nantong are all situated in the river valley of the Chang Jiang, which is a key cotton growing region of the country and hence there are ample materials for the development of the textile industry. Furthermore, weaving, spinning, and textile industries have a long history in this region and the technology and equipment is fairly advanced, while communications are convenient and information easily accessible. These areas and towns have fully exploited these superior natural resources and conditions and have made great efforts to develop an independently characteristic light and textile industry, with the result that the economy has developed quickly and has consistently maintained a high speed of growth. Judging by the situation in these six towns, full exploitation of the superiority in natural resources is the best way of developing industry to achieve greater, faster, better, and more economical results. First, investments are low and accumulation is high. For example, between 1978 and 1982 investments in fixed assets in Shashi were 320 million yuan, while profits paid to the state amounted to 750 million yuan. Second, the employment rate is high and standards of living are improving. The construction of light and textile enterprises involves at the very least 100 yuan and at the very most several thousand yuan to organize employment for one person whereas in heavy industry it takes an average of 16,000 yuan to organize employment for one person. Third, consumption of materials is low and appreciation is high. The consumption of raw materials represents about 65 percent of the costs of light industrial and textile products, whereas in the case of machine products, this consumption makes up around 80 percent or more of costs. During the 1950's, Yichang was involved in the chemical industry. During the 1960's, it was involved in producing agricultural machinery and in the 1970's it was involved in the military industry. Because it ignored the superiorities and advantages of the region, it was unable to keep up. In the 1980's, it was proposed that "there be a shift from heavy industry, with the emphasis on light industry and textiles, improvements in products, and increased results." The result of this guiding ideology has been some major noticeable results during the last 4 years.

Jiamusi is a comprehensive industrial city situated in the Chang Jiang Plains. It is surrounded by 36 farms and is an important national commodity grain base. The city has four forestry bureaus and it has stores of up to 60 million cubic meters of superior timber. It has four large coal mines and various other bountiful mining resources such as limestone, quartz, and so on. These natural resources represent the basic conditions for our development of the economy. By making full use of them and taking full advantage of these economic superiorities we can ensure that the economy of Jiamusi quickly develops. To this end we must continue to rely on these advantages in natural resources and make great efforts to develop the paper manufacturing industry, the food industry, mining and agricultural machinery industries, the timber industry, and the building materials industry--in particular glass and cement. In this way we can make up the shortages in social demand and at the same time create several sturdy pillars for economic development in the town.

/2. An important principle in increasing economic results and continuing stable economic growth is to integrate the economic superiority of a region with macroscopic developmental trends./ Economic development in the towns which we studied and investigated was fast and results were high. For example, the profit rate for every 100 yuan of production value was 10.76 yuan in Nantong, 11.1 yuan in Yichang, 12.51 yuan in Siping, 13.39 in Wuxi, and 14.38 in Shashi. The extent of profit growth in these towns exceeded the extent of growth in production value. For example, between 1978 and 1982, annual average industrial and agricultural production value increased 11.4 percent whereas the annual average increase in the profit rate was 28.6 percent. One of the fundamental reasons for these outstanding economic results was that when the developmental direction of the town's economy, the business structure, and product make-up were all being decided and drawn up, attention was paid to domestic and external economic developmental trends and a macroscopic comprehensive balance. In addition, attention was also paid to exploiting individual characteristic advantages and superior qualities of the region, thereby working towards extremely selective development. They avoided the tendency to concentrate on microscopic results and ignore comprehensive social results, and to only pay attention to immediate development and ignore future trends. Thus one-sided and blind economic policies were avoided, and in particular, projects which involved backward technology, high consumption, and poor economic results were avoided.

We learned profound lessons from this problem. In the past, when we outlined policies for the developmental direction of the economy and organized concrete projects, what often happened was that if others got involved in the chemicals industry, we did too, if others got involved in the electronics industry, we did too, if others got involved in washing machines, we did too. Because we ignored the natural resources around our own region and our technological capabilities, the result was that a great deal of money was spent, many stalls were set up, a great deal of effort was expended and it wasn't so much that things weren't done, but that economic results were very poor. In the cases of some enterprises and some products, as soon as production got under way they were losing money. This painful lesson made us realize that it was absolutely vital to integrate the economic superiority of one's own region with both domestic and international economic developmental trends, and to integrate both microscopic economic results with macroscopic economic results. This then was an important principle which involved the absolute necessity of bringing economic development onto the same track as improving economic results.

/3. The basic way of improving economic results is to develop marketable goods and constantly readjust the structure of products./ All of these towns upheld the principle of starting from the needs and requirements of their own town, from the superiority or advantages of their own area or region, and from the idea of increasing economic results. Thus they constantly carried out readjustments to the structure of industry, products, and organizations with the result that the proportional relations between light and heavy industry improved day by day and the number of marketable goods constantly increased, while the level of specialized and coordinated production constantly improved. As a result of readjustments in Wuxi, the proportion that light and textile industry represented of all industry in the town increased 14.6 percent over a 4-year period. At the same time, they focused on readjusting product structure and greatly developing

light industrial, textile, and electronic goods well suited to the markets as well as actively developing new products and improving old ones, changing low grade ones into high grade ones, and transforming domestic sales into overseas sales. Thus the economy developed very quickly and results constantly improved.

/4. The key to improving economic results is to regard quality as being of primary importance and to improve the competitiveness of products./ The six towns that we studied and investigated all saw improving product quality as being of primary importance in getting to grips with industrial production. They held that the products were the lifeline of the factories and that quality was the lifeline of the products. Only when there are some truly outstanding products can domestic and international markets be taken over and can economic results improve. For example, in Shashi, all enterprises were required to create famous brand products, to struggle for perfection, and to steadfastly work toward the concepts of "producing the first generation, test-manufacturing the second generation, researching the third generation, and conceiving the fourth generation," and "making the old spur on the new, rejecting the old, bringing in the new, changing and innovating frequently." Over a period of 4 years a total of 690 new product varieties were test manufactured and more than 5,000 varieties of designs were produced. Among these were 1 gold medal product, 2 silver medal products, 46 products of outstanding provincial quality, 90 export products, and more than half the total were all improved products. The hot water flasks produced at the Shashi Hot Water Flask Factory are a famous brand product, with 195 varieties and 1,500 varieties of design and style, with one third of the products being exported to a total of 97 countries. We found that the Shashi Sheet Factory had a product design office with more than 70 people employed in it and every year over 100 different specifications of sheets were designed with over 1,000 different design varieties. The sheets were a national silver brand product. Wuxi upheld the principle of gaining victory through outstanding products and through new varieties and because it manufactured a large variety of good quality products, many of which caught up with Shanghai products in terms of competition, it enjoyed the reputation of being known as "Little Shanghai." Before 1979, half of Siping's enterprises were running at a loss and stock was accumulating. Later they determined to improve product quality and after struggling for 4 years, eventually achieved a renovation of their products and an about-turn in their economy, transforming the previously poor economic results into good results. For example, the siping machine tool accessories factory is a model factory in terms of victory through product quality. The quality of the rotary milling table which it produces is higher than that of Japanese models and approaches that of West Germany--hence it is a leader in China.

/5. Improve standards of management and administration so that enterprises can develop the best possible economic results./ The vast majority of enterprises in these six towns have implemented a shift from a production style to a production-management style. They have adopted various methods and many different channels to expand production and sales and in doing so have truly enlivened production management. Over the last few years, Wusi, while ensuring state planning, has adopted more than 10 different methods to enliven production and sales and has opened up new sales possibilities and given expression to the positive role of market adjustments. The Jiangsu light industrial system has implemented major changes in such areas as the allocation of sales organizations, the construction of sales teams, economic report work, and styles of sales service. They have brought together production and marketing, thus opening up new prospects in enterprise management.

In the six towns we visited we saw more than 20 different factories and their factory grounds were beautifully landscaped, management was modernized, systems were standardized, work well ordered, and standards of enterprise management were very high. For example, in the Nantong No 2 State Cotton Factory there were five factory level cadres who had rich and extensive enterprise management knowledge and the factory foreman was a high level textiles engineer and a member of the national textile enterprise management council. He had implemented a series of enterprise management methods which involved making use of profit targets to organize production. The factory upheld a management responsibility system which ran from the foreman through the administrative offices right down to the shop-floor head and this mobilized the enthusiasm of the workers. This factory has 5,000 workers and 70,000 spindles. In 1983, production value reached 100 million yuan and profits stood at 13.6 million yuan while the factory's "Chaoyang" brand 3036 fine cloth won national silver awards and was exported to five continents, making it a reliable foreign trade product exempt from examination.

/6. Relying on science and technology and advanced equipment to improve labor productivity is very important in improving economic results./ In factories in Shashi, Nantong, Wuxi, and the others, we saw some imported overseas equipment and we were deeply impressed by the focused and selective importation of advanced overseas equipment. This has promoted technological improvements and improved labor productivity and product competitiveness and it represents an important source and vital measure to be employed in improving economic results. Beginning in 1978, Wuxi implemented a total of 120 projects involving technological importation over a period of 5 years, by means of foreign currency loans, compensation trade, joint sino-overseas investments, the importation of raw materials for processing, the importation of parts for assembly, technological cooperation, and focused equipment importation. Seventy-six enterprises imported advanced technology and equipment and production value increased 270 million yuan every year. On average, the use of U.S.\$1 of foreign investment was able to produce 9 yuan of production value and increase profits by 1.8 yuan. Thus technological and economic results improved. They concentrated on products in short supply, famous brands, products which economized on energy, and so on and they imported 12 1980-type international standard production lines as well as 2,480 items and sets of key equipment, thereby greatly improving the standard of production technology. For example, as a result of compensation trade with Hong Kong businesses, the Wuxi Guangming Underwear Factory spent U.S.\$1.2 million on importing six underwear production lines from Japan and West Germany. Production results proved to be 30 percent higher than on domestic production lines and over a 4-year period they produced more than 300 different patterns and styles and 12.5 million items of underwear, of which 80 percent was exported, winning the national silver award. Judging from the reaction of overseas businessmen, the quality of the factory's Yinhu brand underwear has caught up with the standards of the internationally known American Arrow brand underwear. In 1982, this factory produced 3.89 million items of underwear with a production value of 48 million yuan and profits of 5.4 million. Between 1977 and 1982, Nantong implemented 44 projects involving the use of foreign investment, a total of U.S.\$38.61 million. Today, 38 of these projects have now been completed, totaling U.S.\$28.17 million, in 33 of the projects loans have already been paid off, a total repayment of U.S.\$15.49 million and now the town is planning to totally renew all backward equipment by the year 2000.

The high technological standards in these towns are the direct result of an emphasis on the development of wisdom and knowledge and an emphasis on the use of technological and scientific personnel. They believe that competition depends on the products and the products depend on technology, while technology depends on talented and trained personnel. Over a 4-year period Yichang employed some 1,850 technological and scientific personnel from outside. Wuxi set up over 10 worker universities and television universities and they also established coordination with 140 universities, technical colleges, and research establishments throughout China. They employed advisors, held forums, organized integrated production and research bodies, and various forms of technological transfer and attacked many technological problems. As a result, both production efficiency and economic results clearly improved.

/7. An important measure in improving composite economic results is to steadfastly carry out a unified reorganization of industry and to improve standards of specialized coordination./ Practice in these several towns proves that the implementation of economic unification and reorganization, the organization of specialized production, and the transformation of the backward "large but complete" and "small but complete," is clearly able to improve socio-economic results. In the process of steadfastly implementing the principle of readjusting, restructuring, consolidating, and improving Shashi also actively implemented the unified reorganization of industrial enterprises and in addition organized specialized coordination. In all, it organized and set up 15 companies and general factories dealing in lathes, measuring equipment, valves, radio parts, towels, sheets, clothing, bicycles, food, and everyday chemicals. Results were very good. The first batch of such companies and general factories to be set up in 1979 produced production value increases for the town of 31.7 percent and a doubling in profits over the previous year. In 1980, the project was extended to a total of 12 companies and general factories and production value and profits increased 27.75 percent and 29.4 percent respectively. In 1981, the total increased to 15 companies and general factories and this time production value and profits increased 17 percent and more than 10 percent respectively. In 1982, limited production of artificial fibres and decreased in price meant that gross industrial production value and profits for the entire town fell, although the production value and profits of the 15 companies and general factories still increased 13.75 percent and 11.53 percent respectively over the preceding year.

/8. Give prominence to expanded reproduction by intension and ensure good technological reforms in enterprises./ Industrial development in these towns has been fairly fast and in some of them there have been increases in production value of several hundreds of millions of yuan in 1 year. And yet few projects have involved new construction so that more than 80 percent of these increases can be attributed to improvements in existing enterprises and full exploitation of potential. The principle that they have constantly upheld has been to remain firm in existing enterprises, to exert strength in an inward direction, to bring about technological reforms, and to develop breakthrough products. From 1979 to 1983 Yichang focused on 158 technological reform projects and 141 are now in operation. In addition, there were 3,600 projects involving small reforms and changes and together these increased production value by 400 million yuan and profits by 80 million yuan. Over the last few years, Wuxi has firmly upheld a principle of

first exploiting potential and then organizing new construction projects. By doing so more than 80 percent of state investments have been used in technological reforms of old enterprises and between 1979 and 1982, a total of 223 reform projects were carried out involving a total of nearly 300 million yuan in investments. Economic results thus clearly improved.

/9. Another important way of making urban economies prosper and of improving socio-economic results is to make great efforts to develop medium and small-scale enterprises and collective enterprises./ Another common characteristic in these towns which we investigated was the way in which they got to grips with both enterprises under ownership by the whole people and collectively-owned enterprises. Enterprises under ownership by the whole people and collective enterprises can be compared to two wheels of a car--only when both wheels turn together can economic development speed up. The principle which they have upheld over many years of developing large, medium, and small enterprises simultaneously, but concentrating on medium and small enterprises, and developing enterprises under ownership by the whole people and collective enterprises simultaneously but concentrating on collective enterprises, has resulted in an increasingly large role and position for collective enterprises in economic development. For example, of the present 277 industrial enterprises in Shashi, 198 are collectively owned, making up 71.5 percent of the total number of enterprises. In 1982, the production value of Wuxi's collective enterprises reached 1.1 billion yuan, making up 23 percent of gross industrial production value. When one compares 1982 and 1983, it becomes clear that the gross production value of enterprises under ownership by the whole people increased 33.8 percent while the gross production value of collective enterprises increased 76.6 percent over the same period. For every 100 yuan of fixed assets, enterprises under ownership by the whole people created 222 yuan of production value while collective enterprises created 343 yuan. For every 100 yuan of production value, enterprises under ownership by the whole people created 48.18 yuan in profits, while collective enterprises made 59.14 yuan in profits.

Urban collectively-owned enterprises are an important integral part of the socialist economy of the system of public ownership and they are one of the basic styles of economy which will continue to exist in China for a long time to come. They have a thriving vitality and broad developmental prospects. They are characterized by having lively economies, being convenient for the masses, involving small investments, producing quick results and utilizing large numbers of the work force. They play an important role in developing production, enlivening the market, making the economy prosper, accumulating funds, and expanding employment. Large scale development of medium and small-scale enterprises and enterprises under collective ownership is an important trend in future economic development.

/10. Clear channels of circulation and promote production development./ During our investigations we were also impressed by the fact that these towns had one particular advantage, that is industry has been making a real effort to succeed, commerce has been providing support, the financial department, taxation departments, and the banks have all been helping, supporting, and promoting and thus there has been mutual support everywhere and as a result production and channels of circulation are all doing very well, the markets are thriving, and production is developing. Nantong has organized production and circulation on the basis of market changes, widening and clearing channels of circulation, and allowing

further expression of state-run commerce's role as the main channel of circulation. It has used various different methods such as unified shop management, selling goods on commission, expanded rewholesaling, and payment by installments to gradually establish a commodity circulation with many different channels, few links, and an open and loose style. Circulation sectors frequently and punctually supply market information and economic reports absorb marketable sample products, as well as organizing analytical meetings to compare quality, varieties, specifications, and price, and in doing so help industry to draw up and determine its management policies. The towns have also set up small groups jointly coordinated by industry, commerce, and trade sectors, aimed at solving contradictions between production and circulation. The financial departments, banks, and taxation departments of Shashi, Siping, and other towns support regional industrial development and are involved in clearing and smoothing circulation channels and providing determined support, help, and stimulation to enterprises. At the same time they have also been carrying out adaptations which have been of benefit to production development and the result has been development of production in enterprises and increases in the region's financial revenue.

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JOURNAL EXAMINES ADVANTAGES OF LEASING

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[Article by Zhong Yi [0022 3015]: "Leasing: An Effective Way to Speed Up Technological Reform in Enterprises"]

[Text] China has nearly 400,000 industrial and communications enterprises which account for over 80 percent of state revenue. However, a considerable number of these enterprises are still using equipment made in the 1950's and 1960's. They consume a lot of energy and raw and semifinished materials. The quality of their products is poor and economic returns are far from satisfactory. Thus, in order to create a new situation in all fields of socialist modernization, we must pay close attention to the technical transformation of existing enterprises and strive to raise the scientific and technological levels of these enterprises. This is a strategic task for laying a good foundation for vigorous economic development in the 1990's.

Following the implementation of the policy of opening to the outside world and invigorating the domestic economy in recent years, China has made swift headway in economic and technological cooperation and trade exchanges with foreign countries, in making use of foreign funds, in importing advanced technology and equipment, and so on. The present situation is that in addition to purchasing advanced technology and equipment directly from abroad with one's own foreign exchange or with foreign loans, and signing contracts with foreign and overseas Chinese businessmen for joint ventures, cooperative production, compensation trade, and so on, there is a new and noteworthy way of importing advanced technology and equipment—leasing. Practice shows that importing advanced technology and equipment through leasing has many advantages and is an effective way to speed up the technical transformation of existing enterprises.

Internationally Popular

Leasing is a new business and is not yet fully understood by the public. What does leasing mean? To put it briefly, leasing is a question of "borrowing the hen to lay eggs and repaying the debt with eggs." In other words, based on the needs of its clients, the leasing company makes use of foreign funds to import advanced technology and equipment from foreign countries and lease them to its clients. The client pays rent according to the terms of the lease contract with profits derived from projects that have been put into operation or with other funds. Because leasing has the characteristics of pooling funds and resources,

that is, because it is a new type of credit which combines monetary credit with material credit, it has become very popular the world over. Modern leasing developed after World War II when periodic economic crises in the United States and the Western European capitalist countries produced a huge surplus of capital and equipment. The equipment manufacturers therefore set up leasing companies to sell the surplus equipment. The American Leasing Company set up in 1952 was the first enterprise specializing in equipment leasing in the world. The rapid development of science and technology since the 1960's accelerated the renewal of equipment. This brought about a swifter development of equipment leasing in many countries. According to rough estimates, there are about 3,000 leasing companies in the United States, over 400 in West Germany and over 300 in Japan. Some governments have even introduced preferential taxation and financial policies to encourage the development of leasing. For example, the U.S. State Department passed the investment tax rebate act to promote the further development of leasing in depth and breadth. At present, the scope of leasing is continuously being extended worldwide. It not only provides enterprises with new technology and equipment but serves all trades and professions as well as households in general.

Making Foreign Things Serve China

In order to do a better job of importing new technology and equipment from foreign countries with a view to speeding up the technical transformation of our existing enterprises, the China International Trust and Investment Corporation [CITIC] adopted the method of leasing which was widely practiced internationally and made it serve socialism. In addition to leasing handled by CITIC itself, two more leasing companies were set up in 1981. One of them was the China Leading Company Limited set up with investments from CITIC, the State Materials Bureau, the People's Construction Bank of China, the Agricultural Bank, the Industrial and Commercial Credits Department of the People's Bank of China, the People's Insurance Company of China, the China Chemical Engineering Corporation under the Ministry of Chemical Industry, and the China Light Industrial Foreign Economic and Technological Cooperation Company under the Ministry of Light Industry. The other was the China Eastern Leasing Company Limited, a Sino-Japanese joint venture. China's leasing business has made swift progress in the past few years, importing much of the advanced technology and equipment needed by the country's industrial and mining enterprises and other establishments. In 1983, various types of equipment worth a total of \$83.63 million were imported into the country, which was more than double the combined total of \$36.44 million for the years 1981 and 1982.

At present, there are basically two types of leasing in China. The first type is leasing of a financial nature. The leasing company makes use of available financial resources to import advanced technology and equipment needed by consumers and leases these items to them for a number of years. This type of leasing includes many subcategories. Chiefly speaking, there is direct leasing under which a domestic leasing company directly purchases equipment from abroad and leases them to consumers, and subleasing under which a foreign leasing company leases equipment to a Chinese leasing company for subleasing to domestic consumers. When the lease expires, the consumer may decide whether to purchase the equipment, to terminate the lease, or to renew the lease in light of actual

conditions. This method is well-received by those enterprises which are badly in need of technical transformation but do not have sufficient funds to finance the job. The other type is of a serving nature. The leasing company or agent leases out equipment chiefly to help enterprises and establishments meet short-term needs arising in the course of production and construction. This method is quite flexible. Ownership of the leased items belongs to the leasing company. The former method of leasing is now predominant. The latter is still at an experimental stage. In order to meet business needs, the China Leasing Company has established cooperative relations and contacts with more than 300 foreign banks, leasing companies, finance companies, manufacturers, and so on. It has agents in most provinces and major cities. Thus a nationwide leasing network is taking shape. This has laid a good foundation for future developments of the leasing business.

Ten Major Advantages

Despite its short history in our country, leasing has demonstrated its many advantages through practice. Its advantages may be summed up in the following 10 points:

First, it has opened up a new path for making use of foreign funds. Under normal circumstances, it is not easy to apply for deferred payment directly from foreign countries or to obtain intermediate and long-term loans with suitable interest rates for single sets of small and medium-sized equipment imported through trading and for certain large equipment imported to meet urgent needs. By importing the equipment through leasing, it is possible to obtain 100 percent of the financial credit. Moreover, the IMP does not consider lease financing to be part of a country's external liabilities. Thus, by means of leasing, we can make use of foreign funds to import the necessary equipment.

Second, it only requires a small investment. What makes leasing special is that the consumer only needs to pay a small amount in rent periodically according to terms agreed in the lease and does not have to invest in a lump sum. In other words, by paying a small rental, the consumer can make use of advanced foreign technology and renew its equipment.

Third, the procedures are simple. Because leasing combines financial credit with material credit, the leasing body has the dual function of a bank and an import/export company. It closely combines fund raising with the import of equipment and handles the two tasks simultaneously. It saves the consumer the trouble of going to the bank to apply for a loan and then commissioning an import/export company to purchase the item. It reduces intermediate links and speeds up the process of importing.

Fourth, the consumer and the manufacturer can meet directly. In order to ensure that the imported technology and equipment are tailored to actual needs, the leasing company will arrange for the consumer and the supplier to meet and talk things out. In technical talks, it is the consumer that plays the leading role. But business talks are presided over by the company and attended by the consumer. This practice, which brings forth the special skills and favorable conditions of both parties, not only improves the efficiency of the talks but

makes it possible to secure favorable terms for the consumer. For example, CITIC finished negotiating all the technical and business terms relating to the import of a complete set of worsted spinning and dyeing equipment for the Anda Woolen Textile Company in Heilongjiang from West Germany and Italy in only 10 days. In addition, through direct talks between the two sides, the factory also got the manufacturers to provide technical training, to install and test-run equipment, and to provide enough spare parts to last 2 years at no additional cost.

Fifth, it speeds up importing. Because leasing is flexible and simple, it usually takes quite a short time to import the items. For example, in view of the increase in the number of foreign friends, overseas Chinese, and compatriots from Hong Kong and Macao visiting the capital in recent years, the Shoudu Motor Bus Company and the Beijing Municipal Taxi Company imported 400 small vehicles from Japan to improve tourist facilities in the city through CITIC in 1981. The whole process of carrying out negotiations, handling formalities, and actually importing the vehicles was completed within the same year.

Sixth, it is not affected by inflation in the international arena. Another advantage of leasing is that it will not increase the operating cost of an enterprise because it keeps a long-term and fixed interest rate. International inflation fueled by various causes usually forces interest rates on loans to go up. But with equipment imported through leasing, the rent remains unchanged throughout the leased period once the lease is signed and will not be affected even in the event of inflation and devaluation.

Seventh, preferential tariff may be granted. In order to bolster leasing which makes use of foreign funds to import advanced technology and equipment for use in the technical transformation of existing enterprises, the state has already made preferential provisions in its taxation policies. For example, it was stipulated by the departments concerned in 1982 that projects which make use of foreign funds shall be exempted from customs duties and be eligible for a 50 percent reduction on unified industrial and commercial taxes. In 1983, it was further stipulated that all technical transformation projects included in the state or provincial plans shall be exempted from customs duties and be eligible for a 50 percent reduction on unified industrial and commercial taxes. Some countries also offer preferential tariffs to a greater or lesser extent to encourage leasing. For example, the interest rate on some Swedish-made equipment imported through leasing in 1983 was about 4 percent lower compared with interest on loans during the same period.

Eighth, it promotes technological progress. The aim of the leasing companies is to import advanced technology and equipment on behalf of industrial and mining enterprises to promote the technical transformation of existing enterprises, particularly the medium-sized and small ones, and to enhance our capabilities in developing new technologies through assimilation and dissemination of these advanced technology and equipment. For example, the Taiyuan Slag Wool Factory in Shanxi leased from Japan an insulating tube production line which made use of slag to produce mineral wool. This production line included both hardware and software, meaning that in addition to the key equipment, patented technology, the adhesive formula, technical charts, quality control methods, and other software

were also imported. After the completion of this project, the factory should be able to make use of steel slag to produce mineral wool and will not have to spend its foreign exchange on importing mineral wool as it did in past years. It will also be able to make full use of thermal energy, which is a giant step forward in the comprehensive utilization of technology from China's metallurgical industry.

Ninth, it increases the capacity for production. In many old enterprises which relied on leasing to renew their equipment, the capacity for production has more than doubled. For example, the Dazhonghua Rubber Plant in Shanghai, despite being a large key enterprise, consumed a lot of energy but yielded a low output because outmoded equipment of the 1950's was used. The products produced were also not very airtight. In order to change this situation, the factory imported from the United States two sets of closed roll mills which were up to international standards of the late 1970's through a leasing company. After these two sets of key equipment have been tested and put into production, the productive capacity of the factory will be increased by 250 percent.

Tenth, it yields remarkable economic results. Because leasing has all the above advantages, as long as we are able to properly assimilate and make use of the advanced technology and equipment imported by means of leasing, it is usually possible for us to increase production and yield quick returns with only a small investment. For example, the Tianjin Textile Machinery Needles Factory leased 78 sets of equipment from Japan at a rental of USD650,000 in 1982. After the equipment was put into production in November of the same year, production went up by a big margin. Last year, profits and taxes handed over to the state soared from 60,000 yuan to 500,000 yuan. Particularly worth pointing out is that the millions of dollars in foreign exchange which the state paid out for the import of machine needles can now be used for other purposes. The Nantong Meter Plastics Factory leased three sets of key equipment for the production of Pyrocondensed pipe casings in 1982 for a period of 3 years. After the imported equipment was put into production, a marked improvement was seen in the contractibility of the pyrocondensed pipe casings. There is an increase in varieties and output has gone up by a big margin. In terms of specifications, the factory only turned out medium-sized products in the past. Now it is capable of producing as many as 31 specifications of products of large, medium and small sizes. Instead of merely producing accessories for electrolytic capacitors, it can now produce lead-in cords connecting batteries and radio/recorders, source cable connecting plugs, transistor casings, and other accessories. It can basically meet the needs of domestic consumers and increase exports. Last year, real profits grew by over 30 percent. It is estimated that total rentals can be basically covered by foreign exchange earned in 1 year.

China's leasing business is still at its toddling and groping stage. With the development of socialist modernization and the further restructuring of economic systems, leasing holds a very promising future. It is bound to play a much bigger role in the technical transformation of China's existing enterprises.

JOURNAL EXAMINES FINANCIAL STRUCTURE REFORM

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[Article by He Zhenji [0149 2182 0001] of the financial, commercial, and materials economic research unit of the Chinese Academy of Social Sciences: "On the Reform of the Current Financial System"--written in February 1984]

[Text]

I

People's views differ in assessing the current financial system. Some people think that its shortcoming lies in "cooking on separate stoves." I think that the problem does not lie in "cooking on separate stoves," but in mistakes in the methods of concrete implementation and in the improper handling of the quantitative relation between centralism and decentralism that was caused by these mistakes. Since the implementation of the method of "cooking on separate stoves," we have put an end to the situation of division between departments and taken a decisive step toward dividing our financial management into several levels. As a result, our localities really have their own financial decisionmaking power. This has played a positive role in giving play to the initiative of localities in managing their finances and in urging them to develop the production and construction undertakings in their own areas in the light of local conditions, speed up their economic readjustment, and ensure the better satisfaction of the demand resulting from the material and cultural lives of the people in their areas. Practice has proved that the orientation of dividing our financial management into several levels embodied by "cooking on separate stoves" is correct. However, our mistakes in the concrete methods for the implementation of dividing our financial management into several levels has produced a certain negative impact on our national economy.

1. The method of dividing up our unified financial funds into the part included in our budgets and the part not included in our budgets in order to manage these funds is, in fact, a practice of giving up the unified planned management of our finances. At present, the funds not included in our budgets amount to about 60 percent of the funds included in our budgets. It is very difficult to prevent blindness when such a large part of our capital is freed from the control of our unified planning. This is an important cause for the current problems of dispersion of financial resources, and blind and duplicated construction.

2. Matching expenditures entirely with income and having our localities rely on their own revenue to balance their budgets is a method which plays a role in giving play to the initiative of localities in opening up financial resources, but which also plays a role in weakening the control of central finance [financing authorities] over local finance. Under the current industrial management system, most of our enterprises have been put under the jurisdiction of localities and their income and revenue are allocated in accordance with this subordinate relationship. This means that localities directly control more than 80 percent of the financial revenue of the whole country and the central finance controls less than 20 percent of the country's financial revenue and has to collect money from local finance in order to balance its budgets. This has not only given rise to an excessive dispersion of our financial income, but also caused our central finance to lose the material strength it needs to control the localities' orientation in spending their funds.

3. The method of dividing up revenue and expenditure in accordance with relations of subordination has the advantages of closely linking the situation of the development of local economy with local financial interests and of giving play to the initiative of our localities in satisfactorily running their own economic undertakings. However, this has also given rise to the malpractice of putting the interests of our central finance out of line with those of our local finance. First, allocating all the financial income of the enterprises under the jurisdiction of localities to local finance and all the financial income of the enterprises under the jurisdiction of central departments to central finance has caused our local enterprises to have links only with the interests of local finance and no links with the interests of central finance and has caused central enterprises to have links only with the interests of central finance and no links with the interests of local finance. As a result, when considering expanding their sources of financial revenue, our localities will be apt to regard local enterprises as closer to them than central ones in the relations between localities and enterprises. They may lead to the malpractice of small enterprises pushing away larger ones, blind production, and duplicated construction. It will inevitably aggravate the abnormal tendency of "locality ownership" and of blockades between various areas. Second, dividing up the spheres of income and expenditure in accordance with the administrative subordinate relations of our enterprises has caused the attainment of profits in our local enterprises to be too closely related with the interests of local finance and departments in charge. The various localities and departments often make excessive and uncalled-for administrative interference in enterprises out of consideration of their own interests. This fetters the economic activities of our enterprises within the boundaries and conventions of administrative departments and areas, is detrimental to giving play to the initiative of our enterprises and to establishing horizontal economic relations, and hinders the reform in our circulation system. Third, this method often fragments the responsibility and power in our financial management. Fundamentally speaking, our financial system is geared to the correct handling of the relations between responsibility, power, and interests in our financial distribution. Financial responsibility is the core, therefore, in our reform, we must start from dividing up financial responsibility, clearly define the scope of responsibility of our localities for their social and economic undertakings and the levels that

these undertakings must attain, and correspondingly decide the division of financial power and interests. Only by so doing can we satisfactorily readjust the relations between financial responsibility, power, and interests and achieve unity between responsibility, power, and interests. On the surface, the division of the scopes of income and expenditure in accordance with administrative subordinate relationships seems to have divided up financial responsibility. However, in fact, this method cannot clearly define the financial responsibility of our localities and cannot replace the division of the scopes of responsibility for local undertakings. The principle of "cooking on separate stoves" is implemented in order to transform the system of excessive centralism and control by the central authorities. Under the system of centralizing revenue and expenditure, being under the jurisdiction of the central authorities does not mean being free from the responsibility that must be shouldered by localities, while being under the jurisdiction of localities does not mean being free from the responsibility that must be shouldered by the central authorities. Therefore, dividing up the scopes of income and expenditure will inevitably confuse the financial responsibility of central and local finance and confuse the demarcation line between the scopes of the central and local financial responsibility. Since the implementation of the financial system of "cooking on separate stoves," we have often heard the central finance say that we have transferred down our financial revenue but have not transferred down all our financial revenue. This is the so-called practice of "breaking only the centralization of revenue but not that of expenditure." However, the localities say that both the revenue and expenditure have been clearly divided up and transferred downward, but the central authorities continue to invent names to collect money from localities. They call this practice "failure to execute all-round responsibility contracts." This shows that responsibility has not been clearly divided up and power and responsibility is disjointed.

4. Under the financial system of "cooking on separate stoves," the various concrete methods to handle the relationships between the centralization and decentralization of power are aimed at making a quantitative demarcation line between the financial revenue and expenditure between the central and local authorities. Therefore, there are only means of decentralization, but no means of centralization to control dispersion. This has severed the organic links between the centralization and decentralization of power in our financial management and caused centralization of power to be disjointed from decentralization of power. Thus, decentralization of power results in a split in organization. This has resulted in a situation whereby, after the financial decisionmaking power of our localities has been expanded, our localities have broken away from macroeconomic control and acted somewhat blindly while giving play to their initiative in managing their finances. This was an important reason why a situation whereby "rigidity emerged as soon as centralism was practiced and confusion emerged as soon as centralism was relaxed" occurred time and again in our previous reforms in our financial system. Therefore, in reforming the current financial system, we must solve the problem of the restriction of centralism over decentralism while solving the problem of the distinction between the scopes of centralism and decentralism. We should manage to achieve the aim that the centralism of the central authorities cannot only play a role in unifying localities and restricting the

dispersion of localities, but also does not hinder the decisionmaking power of local finance. On the other hand, in expanding their power, the localities can give full play to their initiative in independently managing their finances in the light of local conditions, but should still come under the control of the centralization of power by the central authorities. Only by so doing can we achieve the aim of giving full play to the initiative of both the central and local authorities--enlivening localities without causing confusion and exercising central control without causing rigidity.

II

In order to solve the above-mentioned problem, and to overcome the evils in the current financial system, adhere to the orientation of dividing up our financial management into several levels, and appropriately readjust the quantitative relations between centralization and decentralization in our finance, it is imperative to carry out an overall reform in the concrete methods of our current financial system.

Correctly arranging the quantitative relationships between centralization and decentralization in our finance is the key to the success in the reform of our financial system. However, in implementing the system of dividing our financial management into several levels, there is an objective limit to the scope of the centralization of the central finance and the scope of decentralization for local finance. This limit cannot be determined by people's subjective desires. The objective limit of centralism and decentralism in our finance includes two aspects--degree and quantity. By degree of centralism and decentralism in our finance we mean the greatest objective range allowed for the quantity in the centralization and decentralization. By quantity we mean the concrete quantitative limits to the centralization and decentralization in a certain period and under certain conditions and within the range of the degree. Degree is relatively stable and quantity changes frequently. Within the range of degree, quantity stipulates the quantitative limits for different conditions and different periods and is therefore a quantitative demarcation line of the second layer.

1. The degree of the objective demarcation line between financial centralization and decentralization is determined by the public ownership of our means of production and by our country's concrete national conditions. Socialist financial distribution is an activity of the state in distributing its surplus products in a centralized manner in order to satisfy the common demand of the society. Therefore, in view of its essential nature a socialist financial distribution is a highly centralized distribution and its management must be carried out by society in a centralized manner. However, ours is a large socialist country and its concrete national conditions determine that its financial distribution should be a multilayered one and that there should not only be the centralization of central finance but also necessary decentralization. This distribution can only be concretely implemented in a multilayered manner under the centralized control of the central authorities. Ours is a socialist country with a vast territory, a large population, and many nationalities. The level of development of the productive force in various areas is very uneven and the social economic conditions vary greatly in different areas.

Therefore, necessarily, the common social demand is of a multilayered nature. There is not only the common social demand of the whole nation as a unit but also the common social demand displayed in the form of regional demand. This characteristics determines that our country's financial distribution and management must be a multilayered one. The distribution related to common social demand of the whole country as a unit must be organized by the central authorities in a centralized manner, which is the only effective method to satisfy this demand; while the distribution related to the common social demand with regional characteristics can only be organized separately by various areas and this is the only method to effectively satisfy this demand. Thus, objectively, a quantitative demarcation line between financial centralism and decentralism has taken shape: the minimum quantity to satisfy the common social demand of the whole country as a unit is the necessary lowest limit of the centralization of the central finance, while the remnant part is the uppermost limit of the decentralization of local finance. The minimum quantity to satisfy the common social demand with regional characteristics is the lowest necessary limit of the decentralization of local finance and the remnant part is the uppermost limit of the centralization of central finance.

2. The quantities of the objective limits to our financial centralization and decentralization are determined by the actual state of affairs related to the tasks in developing national economy that our finance faces in various periods. The tasks of developing our national economy vary as periods vary and so does the sharing of financial responsibility between central and local finance and the quantitative relationships between centralism and decentralism in our finance. If a large number of national economic tasks needs to be fulfilled by the central finance, the responsibility shouldered by it will be great and the degree of centralization should be higher. On the contrary, if most of the tasks in developing our national economy can be fulfilled by localities in a decentralized manner under the unified control of central finance, the responsibility shouldered by the central finance will be relatively small and the degree of centralization can be lower. For example, at present, our economic structure has not yet been entirely harmonized and fails to meet the demand resulting from the developing of our energy, communications, and economy. Therefore, we must quickly develop these undertakings on a relatively large scale and the funds needed for this will mainly be the responsibility of the central finance. That is why more centralization is necessary for the central finance.

From the above analysis we can see that in looking for a rational quantitative demarcation line between centralization and decentralization for a certain period, we must start from analyzing and measuring the influence of various objective factors on the responsibility of the central and local finance. When we have definitely measured the rational quantities for the centralization and decentralization of our financial responsibility, we will then correspondingly decide the quantities of centralization and decentralization in other aspects. The method of the current financial system in measuring the quantities for the centralization and decentralization of our central and local finance runs counter to the above-mentioned practice. Therefore, in reforming the current financial system, we must first put an end to the method

of dividing up the scopes of income and expenditure and should no longer divide the scopes of income and expenditure according to the subordinate relations of our enterprises.

In dividing up the scope of expenditure, we should switch to the method of dividing up the scope of responsibility for expenditure according to the nature of the undertakings. According to their nature, our various undertakings can be divided up into the following categories: 1. Local basic undertakings that are of a purely local nature and do not involve the whole situation. For example, the undertakings such as local government administration, urban construction, local facilities of roads and public utilities and local industrial and commercial enterprises. This category of undertakings should be entirely put into the charge of localities and the expenditure to be incurred on them should be provided by local finance. 2. Undertakings of a local nature, but which are needed by a relatively large number of other areas or by the whole country. For example, the undertakings of developing hot spring facilities of medical value and well-known tourist spots. The central and local finance should jointly shoulder the responsibility for providing for this expenditure. 3. Undertakings that are of a purely national nature but which need to be conducted by localities separately. If the responsibility of the central authorities for these undertakings is the major one and that of the local authorities is a supplementary one, the expenditure must all be put under the charge of the central finance. 4. The undertakings that are central and can only be run by central authorities, such as the administration of the central government, the national defense and war preparations, foreign affairs and national key projects, should be put under the charge of the central authorities. Their expenditure should be defrayed by the central finance.

In dividing up revenue, we should implement the system of sharing tax revenue (shortened as tax sharing system) that enables the central and local finance to jointly enjoy our financial sources. By jointly enjoying financial sources, we mean that no matter to whom a financial source belongs, this financial source should become the source of revenue for both our central and local finance. The tax sharing system differs from the method of sharing the total amount of revenue that is adopted in our current financial system. The method of sharing the total amount of revenue is based on the method of dividing up revenue and expenditure according to the relations of subordination. It has not been free from the conventions of dividing up revenue and expenditure according to the relationships of subordination. Under a tax sharing system, no matter to whom a source of revenue belongs, it must be shared by the central and local finance. This is a negation of the method of dividing up revenue and expenditure in accordance with the relationships of subordination. The implementation of the tax sharing system means the implementation of substitution of tax collection for profit delivery in our state-run enterprises and forcing our enterprises to pay taxes to central and local authorities according to the rate fixed by law no matter to whom the enterprises are subordinate.

The method of tax sharing system has many advantages: 1. It is conducive to the elimination of the tendency of "local ownership." No matter to whom an enterprise belongs, the locality in which the enterprise is located can get

a share of the income of the enterprise. Therefore, there is no need for a locality to particularly protect the enterprises under its own jurisdiction. This will facilitate preventing the malpractices of small enterprises pushing larger ones aside, blind production, duplicated construction and regional blockades. 2. It is conducive to promoting transregional combination and specialized cooperation. Under a system of dividing up revenue and expenditure according to the relationships of subordination, when there is a need to change the relationships of subordination of an enterprise in carrying out a transregional combination, the interests of the local finance to which the enterprise previously belonged will be directly affected. As a result, there is a possibility that people will raise an objection to it. However, after the implementation of the tax sharing system, as long as the enterprise is not moved away from the locality, the financial revenue of the local finance will not be affected. Furthermore, reorganization, combination, or transregional cooperation will raise economic results and thus increase local revenue, therefore, the locality will actively support it. 3. The implementation of a tax sharing system helps enterprises organize the production and circulation of products in accordance with economic laws, because under this system, the performance of the enterprise in earning profits is no longer linked with the interests of the localities and departments and the enterprises will be able to break away from the administrative fetters of departments and areas at various levels.

The method of implementing the double-track system for the source of local financial revenue (that is local finance will rely on two sources of revenue, namely the share it gets from the revenue of central finance and its own fixed income in striking a balance in its budget), can ensure that central finance has the material means to impose macroeconomic control over local finance.

For the sake of giving full play to the role as a lever of funds allocated by central finance to local finance while refraining from impeding the decision-making power of local finance, we must adopt various methods in accordance with the different nature and various needs of the localities. We may try to adopt the following methods: 1. Subsidy is given in accordance with the actual disparity between the annual standard revenue and standard expenditure of the local finance. This method is mainly adopted to help the areas where their income is not sufficient to satisfy the needs for maintaining and developing the local basic undertakings. Under the normal condition of local finance, what we call the difference between standard revenue and expenditure is the actual difference between the income which should be acquired in accordance with the regulated standard calculation and the expenditure which is needed by various local basic undertakings and which is calculated in accordance with the quoted standard costs. This kind of method by which subsidy is not given in accordance with the actual difference between the actual revenue and expenditure, not only facilitates overcoming the disputes on financial targets between the central and local authorities, but also urges the local authorities to make greater efforts to increase their income and cut down their expenses and heighten their initiative in improving their financial results. In giving subsidies in accordance with the difference between standard revenue and expenditure, the amount of subsidy may be equal

to the actual difference and may also be bigger or smaller than the actual difference. If the local authorities pay attention to raising their financial results and thus enable the actual expenditure required for completing the various projects of basic undertakings to be lower than the standard, or if they vigorously open up new financial resources and organize the collection of their revenue, their actual income will be higher than the standard. As a result, the local authorities will be able to get extra financial resources and set up some more undertakings. On the contrary, if the local authorities fail to do their jobs satisfactorily, it will give rise to a situation whereby the subsidy from the revenue of the central government is not sufficient to make up the actual difference, and as a result, financial difficulty will occur. 2. A certain proportional subsidy is given in accordance with the fixed standard. This method is mainly applied to the undertakings which are run by the local authorities and which have a bearing on the overall situation, and to the undertakings whose expenses should be jointly borne by central and local authorities in accordance with regulations. Its characteristics are: The subsidy is not given in accordance with the actual needs but in accordance with the fixed standard. We do not consider the question of whether or not the local authorities have enough financial resources to run these undertakings. As long as local authorities run this kind of undertaking, the central authorities will give them subsidy in accordance with regulations. This will precisely induce the local authorities to run the undertakings which have a bearing on our overall situation. It will also give play to the restrictive role of the central finance over local finance in using its funds. 3. The method of giving subsidy for special projects. This is not a fixed subsidy. The question of which projects should be given subsidy will be solved every year by the central finance in accordance with the requirements of our national economic plan and the requirement for the readjustment of our economy. We must make it public beforehand. This method is mainly adopted to guide the orientation for using local financial resources and is aimed at giving play to the role of financial levers. 4. The method of central authorities entrusting the local authorities with the spending of funds. It is mainly used to satisfy the demand of the central authorities for entrusting the running of undertakings to local authorities. The central authorities will set up some projects and will then give them to the local authorities who will manage them under all-round responsibility contracts. The local authorities should fulfill the assigned tasks on time, both in quality and quantity. If there is any surplus, it will be retained and used by the local authorities. If there is a shortage, the local finance will be responsible for making up the shortage. This method helps to arouse the initiative of the local authorities to pay attention to the various undertakings run by the central authorities within their areas.

Will the implementation of the double-track system on the source of local financial revenue reduce the decisionmaking power of our localities? No, it will not. This method is implemented under the precondition of persisting in managing our finances level by level and expanding the decisionmaking power of local finance. The returning of a part of the revenue that the central finance has collected from localities differs from the allocation of funds from the central finance under the system of centralized revenue and expenditure.

It also differs from the current system of equalizing revenue and subsidizing localities by central finance. The percentage of the revenue returned by the central finance cannot be reduced at will and every year the central finance must return it in accordance with the stipulated schedule and amount. In this sense, we can say that this returning of revenue provides a kind of fixed revenue for localities. Therefore, in doing this, the central authorities have not taken back the financial power of localities but only changed the form by which local finance collects its revenue. The only difference is that by this method, the central finance to some extent guides and controls the spending of local funds and plays the role of control by centralization over decentralization. In addition, because the amount of the revenue returned by the central finance is calculated in accordance with stipulated standards, therefore, the localities can calculate beforehand the amount that they will get. This facilitates making long-term all-round arrangements in using local financial resources and developing local undertakings. As a result, it is no longer necessary for localities to contend for targets of revenue and expenditure with the central finance. It also provides an effective guarantee for local decisionmaking power.

Furthermore, we should also change the method in our current financial system of dividing up our funds into budgeted and extra budgeted ones to be managed separately and should implement a unified and integrated national budget system. The financial revenue acquired by various departments of the governments at various levels in various forms and the various forms of financial expenditure incurred by these departments should all be included in the financial budgets at various levels and at the same time be included in the budget of the state in order to ensure that the use of all capital comes under the control of the unified planning of the state.

CSO: 4006/644

FINANCE AND BANKING

GUANGDONG FINANCE DEPARTMENT SUPPORTS TWO CITIES

HK300849 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 28 Jun 84

[Text] The provincial finance department has taken four measures to vigorously support two cities, Guangzhou and Zhanjiang, and for Hainan Island to further open to the outside world and to speed up the economic development.

The four measures are:

1. Two cities, Guangzhou and Zhanjiang, are to fix the revenue in their economic and technological development zones. In 5 years from 1985, the newly increased revenue will be wholly reserved for their own use and need not be submitted to the state. The increased revenue in original, old urban areas can be appropriately reserved.
2. Preferential treatment will be given to taxes in the economic and technological development zones of two cities, Guangzhou and Zhanjiang.
3. People who import foreign capital for foundation facilities in the development zones in two cities, Guangzhou and Zhanjiang, can spend the capital. In accordance with financial regulations, the income from facilities built with foreign capital can be reserved for use after repaying loans and interests. Regarding the profits of Chinese and foreign joint ventures, people who invest will have part of the profits allocated for the Chinese side. In the 3 years that profits need not be submitted to the state and taxes are exempted, the profits from processing and assembling materials supplied by foreign firms will be reserved for the enterprises.
4. The power to examine and approve the reduction and remission of the industrial and commercial taxes in the cities and Hainan Island open to the outside world will be relaxed. Localities can examine and approve the reduction and remission of taxes if the amount of the taxes reduced of any enterprise is between 30,000 and 50,000 yuan a year without the necessity of reporting to the province.

CSO: 4006/643

FINANCE AND BANKING

LI PENG ON TAX REFORM, FINANCIAL MANAGEMENT

OW071700 Beijing XINHUA in English 1643 GMT 7 Jul 84

[Text] Beijing, 7 Jul (XINHUA)--Vice-minister of Finance Li Peng said today that China's taxation system would have to be greatly improved to cope with the latest changes in revenue policy.

At the same time, the financial management of enterprises would also have to be strengthened, he told the closing session of a national meeting on financial reform here.

The second stage of tax reform will come into effect in October this year. The aim is for tax collection to replace the system of business handing over their profits to the state.

Great effort was needed to make the policies work and to prevent tax evasion, said Li, adding that offenders would be severely punished.

Similar effort was also needed to increase the sources of state revenue and to give positive support to production.

State budgets must be adhered to, and revenue quotas reached or surpassed, he said.

Since the beginning of this year, the state financial situation had been very good, and there had been simultaneous increase in production, profits and the amount of taxes and profits turned over to the state.

However, great effort was needed to maintain this trend, and to further increase receipts, save unnecessary spending and develop production.

The whole financial system, along with its many defects and outdated rules, needed to be reformed. Li said that businesses must be given help in improving management, raising economic efficiency and turning losses into profits.

And he added that the background team of researchers and economists must also be strengthened if the country's financial affairs were to be improved.

CSO: 4020/155

FINANCE AND BANKING

BRIEFS

JILIN SAVINGS DEPOSITS--By the end of June, the province's urban savings deposits had reached 1.98 billion yuan, an increase of 280 million yuan more than the figure in the beginning of the year, up 55.5 percent over the corresponding 1983 period. The number of households with money in the bank rose by 800,000 as compared with the beginning of the year. [Excerpt] [Changchun Jilin Provincial Service in Mandarin 1030 GMT 2 Jul 84 SK]

NEI MONGGOL INSURANCE BUSINESS--Nei Monggol has made encouraging progress in insurance work. According to statistics of relevant departments, insurance departments in the region have so far opened more than 20 categories of domestic and foreign insurance. Since the region restored the insurance business 4 years ago, more than 4,000 urban enterprises and more than 10,000 families have had their property insured. Following the great increase of urban and rural collective enterprises, specialized and key households, and economic associations, more and more people are eager to take out property and life insurance. [Excerpts] [Hohhot Nei Monggol Regional Service in Mandarin 1100 GMT 4 Jul 84 SK]

CSO: 4006/643

MINERAL RESOURCES

BRIEFS

NEW GANSU JADE DEPOSIT--Lanzhou, July 7 (XINHUA)--A jade deposit estimated at 324 million cubic meters has been found near the county town of Wushan in Gansu Province, Northwest China. covering 10.77 square kilometers, the deposit known as serpentine jasper is shallow and suitable for open mining. The green stones, some emerald-colored and some with shades of black, yellow and gray, are naturally patterned like snowflakes, waves and clouds. They are large, finely textured and strong. Workshops have been set up locally to turn out 20 artwares including imitations of time-honored cups that glow in the moonlight when filled with wine and modern decorative building materials of various specifications. Some are exported. There are large jade deposits in the Qilian Mountains in Gansu Province as well as in southern Tibet and Xinjiang. The largest reserve of the very valuable serpentine jasper is contained in the newly-discovered deposit. [Text] [OW071108 Beijing XINHUA in English 0730 GMT 7 Jul 84]

COPPER-NICKEL DEPOSIT--China's third-largest copper-nickel deposit has been discovered in northernmost Xinjiang. Located near the Ertix River, the deposit also contains gold, silver, platinum, palladium and cobalt. [Text] [Beijing XINHUA in English 0853 GMT 7 Jul 84 OW]

HEILONGJIANG GOLD PRODUCTION--As of the end of June, Heilongjiang Province overfulfilled the semiannual gold production plan by 9.5 percent and showed a 53-percent increase over the corresponding 1983 period. [Summary] [Harbin Heilongjiang Provincial Service in Mandarin 1000 GMT 6 Jul 84 SK]

CSO: 4006/643

INDUSTRY

LONG-TERM POLICY FOR MACHINE-BUILDING INDUSTRY

HK160825 Beijing JINGJI YANJIU in Chinese No 5, 20 May 84 pp 63-66

[Article by Liu Guochu [0491 0948 4342] of the policy research office of the Ministry of Machine-building Industry: "Adapting to the Change of demand and Readjusting the Structure of Products Is Long-term Policy of Developing the Machine-building Industry"--revised February 1984]

[Text] Readjusting the structure of products is a long-term problem of a definite strategic significance in the development of the machine-building industry. If the structure of machine-building products is not rational, it will not only hamper the development of the machine-building industry itself but will also seriously impede the work of rationalizing the structure of the national economy. Hence, readjusting the structure of the products of the machine-building industry is not only a problem which concerns the development of the machine-building industry but is also a problem related to the development of the entire national economy. It is thus extremely necessary to take adapting to the change of demand and readjusting the structure of products as a long-term policy of developing the machine-building industry.

1. Objective Basis for Readjusting the Structure of Products of the Machine-building Industry

Development of the various departments of the national economy must follow the law of planned and proportionate development. The machine-building industry provides technical equipment to various departments of the national economy. Hence, the structure of the products of the industry cannot but be affected by the proportionate relationships of the various departments. We must, from this angle, analyze and understand the guideline of readjusting the structure of its products to adapt to the changes in demand.

1. Readjusting the structure of products of the machine-building industry answers the need of readjusting the structure of the national economy. Since 1979, in order to bring about a coordinated development of the various departments of the national economy, particularly between agriculture, light industry, and heavy industry, and to achieve a benign cycle of economic activities, the party and the state have determined and enforced a readjustment guideline and readjusted the proportionate relationship between accumulation and consumption. The economic structure has also been readjusted and development of

agriculture and of light industry has been given an important place. As for heavy industry, the speed of its development and its proportion in industry have likewise been readjusted. At the same time, heavy industry, which includes the machine-building industry, has been called on to readjust the direction of its services, expand the sphere of its services, improve the quality of its service, reinforce its adaptability, better serve agriculture and the consumer goods industries, and also serve the technical transformation of the national economy, foreign trade, and the modernization of national defense. Expansion of the sphere of service will necessarily lead to many changes in the structure of the products of the machine-building industry and provides an objective basis for readjusting the structure of the products of the machine-building industry.

2. It is necessary to readjust the irrational condition of machine-building products. For a prolonged period, the machine-building industry has devoted its attention principally to production of the means of production and has neglected production of the means of consumption; it has heavily stressed services to capital construction but neglected serving technical transformation; it has paid major attention to domestic demands and neglected export needs; and it has paid major attention to the needs of industrial development but scant attention to the needs of agriculture. As a result, in the structure of products of the machine-building industry, equipment for the purpose of serving heavy industry, such as equipment for large-scale mines, petrochemical establishments, and so forth has occupied a relatively big proportion whereas products serving agriculture, light industry, science, culture, municipal construction and people's living have occupied a relatively small proportion. Prior to 1979, the products of the machine-building system directly serving light industry had been only 3 percent of the gross output value of industry as a whole and, even after the readjustment made in the past few years, the proportion was still below 10 percent. Viewed from the technological angle, in the composition of the products of the industry, the proportion of products which are of an advanced level and which consume only small amounts of energy and raw materials in their making and of products of good quality or of well-known brands has been rather small. If this irrational situation of the structure of machine-building products is not readjusted, then there is no way to adapt to the demands of the four modernizations. It is true that in recent years, some progress has been made in reorienting the structure of the products toward a more rational condition and in readjusting their direction of service and expanding their service areas but in reality no basic change has been made in the irrational condition of the structure of the products.

3. The place and the role of the machine-building industry in the national economy determine that the irrational condition of the structure of the products must be readjusted. The machine-building industry serves as the "equipment department" and "service department" of the national economy, bearing the heavy responsibility of providing technical equipment for the four modernizations. Whether or not its products are marketable and whether their level is high or low directly concern the technical advancement of the various departments of the national economy and the improvement of the labor productivity rate. They are also related to improvement of the material and cultural life of the people. Therefore, the machine-building industry must readjust the structure of its products, laying due stress on the composite demands of development of the national economy.

4. Judging from the new direction and new trend of changes in the structure of the products of the machine-building industry in industrially advanced countries of the world, we should pay special attention to readjusting the structure of machine-building products. In the past 20 years and more, following the development in science and technology, the structure of the machine-building products of the industrially advanced countries of the world has been continuously changing. New products have continuously emerged, occupying an increasing proportion of the products of the industry as a whole. New industries and trades have speedily developed and new service areas have been continuously developing.

Viewed from the technical angle in the development of products, high-level products have rapidly increased. First, the development of precision machines has been going on at a rapid pace. For example, in the United States, from 1951 to 1980, production of precision machines averaged an annual increase of 6.5 percent, taking the first place among the five large sectors of the machine-building industry. Second, machine-building equipment has become electronic in character with computer controlled machine tools, industrial robots and precision instruments developing most rapidly. For example, in 1979, 41.1 percent of the lathes were computerized. In machine-building products, the extensive use of mini-controlled machines, and minicomputers and the linking together of machines and electricity will be an important direction in the development of electrical machinery products from now on. Third, whole-set electrical machinery equipment has continued to develop in the direction of large dimensions. For example in power generation, the Soviet Union has built fuel generating sets each with a capacity of 1.2 million kilowatts, while Japan has continued to build more fuel generating sets each with a capacity of 1 million kilowatts. Fourth, on top of the use of articles of a general nature, various kinds of articles of an advanced and specialized nature have been developed. For example, in West Germany special "tailoring" machines have been in use and in Japan wireless remote-controlled bulldozers and dredgers have been in use on under-water jobs, and so on. Fifth, following the growing intensity in energy shortage throughout the world, old products with a high energy consumption rate are continuously being replaced by energy-saving new products.

Viewed from the expansion of new service areas, new trades and industries served by the machine-building industry and the industry's own new service areas have been continuously emerging. For example, in the past 20 to 30 years, Japan, the United States, and the Soviet Union have gradually developed new trades and new industries such as the information collection industry, minielectronics industry, photoelectronic industry, air navigation and space navigation industry, trade or industry handling inquiries concerning engineering construction, biological industry, industrial robot industry, office appliance industry, and so on and so forth. At the same time, production of durable electrical machinery consumer goods which serve as means of consumption has been enjoying a position of increasing importance among the products of the machine-building industry. For example, in the United States, from 1958 to 1972, the proportion occupied by the output value of durable electrical machinery consumer goods out of the gross output value of the machine-building industry rose from 14.8 percent to 18.2 percent. Notable increases

were also made in the quantity and variety of technical equipment supplied by the machine-building industry to the departments turning out means of consumption. In the United States, between the years 1958 and 1972, the proportion of the output value supplied by the machine-building industry to the departments producing means of consumption out of the gross output value of the machine-building industry, rose from 24.4 percent to 30.9 percent while in the Soviet Union between the year 1960 and 1975 the corresponding ratios likewise increased from 13.5 percent to 24 percent. It is true that the concrete conditions in our country are different from those of the industrially developed countries and we cannot copy outright the experiences of these countries. Nevertheless, we should still highly regard this news of countries of the world constantly replacing the old with the new and changing the structure of the machine-building products in order to adapt to changes in objective demands.

11. Demand and Signs of Readjusting the Structure of Products of the Machine-building Industry

To what extent can the structure of products of the machine-building industry be readjusted so as to conform with rationality? Generally speaking, it should be so readjusted as to be adaptable to the changes in the structure of demands, subject to the logical premise of a proportionate development of the national economy.

First, it is necessary to adapt to the rational structure of the national economy, that is, basically conforming to the objective demand of a planned and proportionate development of the national economy. Naturally, whether or not the structure of the products is rational has reference to a definite period of time, location, and conditions. Socialist modernization enterprises are ceaselessly developing and the structure of objective demands is continuously changing. Speaking from this context, readjustment of the structure of machine-building products is an endless process which calls for continuous progress and continuous adaptation. At present, our country needs to establish an economic structure which, relatively speaking, can make full and effective use of manpower, material strength and resources and can enable the various departments of the national economy, particularly agriculture, light industry and heavy industry, to achieve a coordinated development and bring about a benign cycle of economic activities. This demands that we readjust the proportionate relationship between the various departments of the national economy and do our best to speedily develop agriculture, light industry, energy and communications and transportation enterprises and develop heavy industry in an adequate manner. In the process of readjustment and cycling, the machine-building industry should constantly analyze and study the trend of changes in the demand structure and be able to promptly readjust the structure of the products to adapt to the needs of the continuous changes of the structure of the national economy. In recent years, as a result of readjusting the structure of the national economy, the structure of the demand for machine-building products has undergone vast changes. For example:

1. In the countryside, the demand for electrical machinery products has developed in the direction of seeking products which are small in size, embody a large variety, and are of a high level in quality. Following the institution of the system of contracted responsibilities on the household basis, the scale of operation in the machine-building industry to supply large quantities of small-sized machines for farm use, such as the hand-operated tractor. Following development of diversified operations and a daily increase in the number of specialized households, the machine-building industry has been required to supply a large variety of machinery equipment. Moreover, following the application and promotion of various scientific schemes for increasing production and increasing yield, the industry has been required to supply various kinds of new equipment of a highly technical character, such as machine to cover the fields with plastic film, precision sowing machines, measuring and testing equipment, and so forth. And following a large-scale increase in the demand for energy supply in the countryside, the industry has been showered with demands for supplying various kinds of equipment for energy utilization, such as equipment to use wind power or hydropower to generate electricity, equipment for generation and utilization of marsh gas, equipment for utilization of solar energy, and so forth. In addition, there has been a continuous increase in the demand for electrical machinery products of daily use and for cultural and sanitation equipment.

2. The requirements of industrial departments for machinery equipment have developed in the direction of seeking articles or facilities which are of first class capacity, precision character, highly efficient and low in energy consumption. The demand for large-scale hydropower, fuel power, and nuclear power generating equipment is anticipated to greatly increase and the machine-building industry will have to supply a large quantity of fuel power generating units each with a capacity of 300,000 kilowatts or 600,000 kilowatts, nuclear power stations of 900,000 kilowatts each of capacity and the relevant super high voltage power transmission equipment and transformers. The demand for large-sized mining equipment will greatly increase while large-sized mining machines will be required by the large open coal mines, by the metallurgical, building materials, and petrochemical departments and by large-sized water conservancy projects. The petroleum industry will need equipment for its offshore development. The metallurgical industry will need highly efficient and precision equipment for the continuous-casting and continuous-rolling processes as well as relevant equipment for steel refining, sintering, and coke-making processes. In the case of the light and textile industries, food, municipal construction and environmental protection industries, they will need various kinds of machinery equipment which are of a high precision character, highly efficient and embody special qualities. Moreover, certain newly risen industries and departments for scientific research will need various kinds of precision instruments and machines as well as other kinds of new products.

3. The trend in readjusting the structure of communications and transportation is to seek the further development of highway transport. The demand for various kinds of motor vehicles will increase and there will be need for developing heavy-type lorries each with a loading capacity of 8 tons or more and for various kinds of motor vehicles for special use in transport.

4. Due to the limitations in energy output, products of a high energy consumption rate will be gradually weeded out and the demand for various kinds and types of energy-saving electrical machinery products will increase.

Second, machine-building products should adapt to the demands of the export trade. In recent years, the export of machine building products has made certain progress. Nevertheless, at present, few machine-building products are truly adaptable to the demands of the international market and the export volume of products are truly adaptable to the demands of the international market and the export volume of products still occupies a relatively small proportion of the total volume of sales. From now on, it is necessary to increase the export volume, particularly to gradually change the composition of the export products, and to increase the export of whole-set equipment and high-grade products.

Third, concurrently with adapting to the needs of the various departments of the national economy and the needs of the export trade, it is also necessary that the development needs of the machine-building industry itself be duly met. On the one hand, there should be a proportionate and coordinated development of the making of the main machine and the making of accessory parts within the machine-building industry itself. The variety of accessories and parts should be a complete one and it should never happen that because of the lack of a certain part the whole output system is stalled. On the other hand, the machine-building industry is currently facing certain important tasks in technical transformation. It is sorely in need of various kinds of high-precision and high-efficiency machine tools and instruments as well as the corresponding accessory products and basic parts. Doing a good job of readjusting the relations between its various trades and products helps the machine-building industry to render even better services to the national economy as a whole.

In short, through readjusting the structure of its products, the machine-building industry must solve the problems from three sides and meet the needs of two markets. The problems from the three sides are: viewed from the technological angle, backward products must be speedily weeded out while adaptable and advanced products must gradually increase; from the service standpoint, a change must be made from serving heavy industry and serving expanded reproduction to simultaneously serving various sectors such as agriculture, light industry, and the people's living; and from the quantitative standpoint, output of short-line or short-term products should be increased and output of long-line or long-term products should be held in check. As for satisfying the needs of the two markets, this has reference to the domestic market and the world market. Naturally, to accomplish all this is not light or easy work. It requires tireless efforts for a rather long duration of time.

III. Policies and Measures To Achieve a Rational Structure of the Products

Readjustment of the structure of products of the machine-building industry and formation of the rational character of the products must come under the influence and restriction of a number of factors. These factors may be mentioned

as the degree or extent of the social division of work, the level of progress of science and technology, the direction, scale, and speed of investments in capital construction, the dimensions and speed of development of specialized production within the industry, the basic quality of the enterprise, and so on. Here in talking about the policies and measures, we are bringing up the major problems arising from readjusting the current structure of the production of the machine-building industry. We are laying special stress on the grassroots level in the hope that by means of readjusting the policies we can arouse and display the enthusiasm of the enterprises in the course of readjusting the structure of the products. Concretely, the following points should be noted:

1. The adaptability of the enterprises should be heightened. In readjusting the structure of the products and adapting to changes in the demand structure, it is necessary to take improvement of the adaptability of the enterprises as the foundation work. Whether or not the adaptability can be improved depends, first, on truly transforming the ideology of the leadership so that they can set up an operation viewpoint, market viewpoint, competitive viewpoint, service viewpoint and viewpoint for the situation as a whole. Under the current condition of a general recovery and rise in the production tasks of the machine-building industry, this point especially deserves our attention. Second, we must be good at fully displaying the special ability and superiority of the enterprise itself, continuously develop new products in accordance with the objective demands, speed up the renovation and replacement of old products, and improve the economic results of the enterprise and society. Third, utmost efforts should be made to improve the quality of the enterprises. Only in an all-round improvement of the quality of the enterprise, is it possible to ensure, on the basis of displaying the special technical talents and improving the economic results, a continuous increase in the variety of products, satisfaction of social needs and truly improvement of adaptability.

2. The direction of the production of an enterprise should be determined in accordance with the principle of the common nature of industrial craftsmanship. In the past, we determined the direction of the products of the enterprise basically on the principle of the common nature of use and on the principle of "gui kou" [2981 0656] method of control of the products. The defects of this method are that the division of work is too rigid, the service area is too narrow and limited, and that it is disadvantageous to readjusting the structure of products; hence, it sorely needs a change. Actual practice in recent years has shown that the workable principle should be: regardless of whichever trade or industry is using the products and regardless of whichever department exercises control over the products, so long as the enterprise can follow the demands of the market and in production employs the original craftsmanship and technical equipment and providing it is economically rational, then it may be considered as being in line with the direction of the products. This is the principle of the "common nature of craftsmanship." Working according to this principle, a new situation will develop in the variety of the products of an enterprise, accomplishing the objectives of the "control being firm but not strangling" and of being "alive but not in confusion." New products turned out by the enterprise in accordance with this direction should be accorded the same treatment as products turned out under

the original direction in regard to such matters as planning and arrangements, technical procedure, and supply of raw materials. As for products not conforming to these principles, they should be given due consideration according to the circumstances.

3. Multi-variety production on a common technical basis should be developed. Since the start of economic readjustment, many enterprises have felt, from their own experiences, that production of a single variety of products cannot adapt to the objective needs of continuous changes. In order to increase adaptability, in readjusting the structure of the product, it is necessary to develop production of many varieties of products. However, development of multi-variety production must be kept within certain limits, that is to say, there must be a common technical basis, meaning that the core of technology determining the character of the product must be on a common basis. For example, many products are based on vacuum technology while many others are based on electronics technology, and so on. Although these products differ from each other in form, in name, and in usage, the techniques forming the product are basically alike. Only in developing multi-variety production on a common technical basis is it possible to achieve economic rationality, to help the enterprises to display their special features and superiority, and to promote a rational structure of products.

4. The principle of division of work between the relevant departments must be determined. Generally speaking, in the past, division of work among the industrial departments was rather clearcut. In recent years, due to the readjustment of the production direction of products and expansion of the sphere of services, production among the enterprises has somewhat crossed the dividing lines. For example, in the case of the machine-building industry, certain of its enterprises have been turning out similar products which enterprises under other departments had turned out formerly, thus affecting the economic results. Therefore, at present, it is necessary to further amplify the principle of division of work. First, in the case of products which other departments have already set up factories to produce and which have been produced in sufficient quantity to meet current needs, the machine-building plants in general should refrain from producing them. If the output of the products cannot meet demand, then, under the planned guidance of the state, the machine-building plants should make use of their current conditions and equipment to produce them, and if additional investments and additional production capacity are called for, then the plants should proceed in accordance with the usual unified rules and regulations. Second, if the plants of other departments have been producing the products but the quality of the products is not up to standard, then the machine-building plants may display their special skill and organize the production and supply of these products. Third, in the case of products which other departments do not or cannot produce, then the machine-building plants may, making use of their skill and capacity, actively develop the production of these products. In short, the overall principle is that we must take improvement of the socioeconomic results as our starting point, take as our objective the rendering of services to the users, put the superiority of the machine-building industry into full play, and satisfy social needs.

INDUSTRY

XINHUA REPORTS ON ANSHAN IRON-STEEL COMPLEX

OW091627 Beijing XINHUA in English 1434 GMT 9 Jul 84

[Text] Anshan, Northeast China, July 9 (XINHUA)--Rebuilt on the ruins of war 35 years ago, the Anshan Iron and Steel Company has become a giant industrial complex which produced nearly seven million tons of steel last year.

Electronic computers are being used to control steelmaking and other processes as part of the modernization program undertaken by the company since 1981. Sun Zhenguo, manager of this largest iron and steel complex of China's, announced these achievements at a meeting today to mark the 35th anniversary of the company's inauguration.

He said that under a technical renovation program, the company is expected to produce eight million tons of steel in 1990. Since 1981, the company has introduced 70 items of technology from abroad, he said. Its seamless tube plant has installed a production line capable of producing 30,000 tons of oil pipes annually, with equipment imported from Federal Germany, Japan and the United States.

In the past 35 years, the company has produced 145 million tons of steel, 141 million tons of iron and 86 million tons of rolled steel--each accounting for 25 percent of the nation's total during the period. Output of the products has risen at an annual rate of over 12 percent.

The company now produces 819 varieties of steel against only 48 in the early 1950's and 627 varieties of rolled steel compared to 33 previously. The company has delivered 32.8 billion yuan in profits and taxes to the state during the past 35 years--one-third of the total for all the country's iron and steel companies.

CSO: 4020/153

INDUSTRY

JOURNAL ON CONSUMER ELECTRONICS PRODUCTS

HK180848 Beijing JINGJI GUANLI in Chinese No 5, 5 May 84 pp 10-12

[Economic commentary by Tong Shurui [0157 2885 6904] and Chen Yixu [7115 0308 0962]: "Energetically Develop the Production of Consumer Electronics Products"]

[Text] The CPC Central Committee Secretariat said in its instructions to the report on the work of television broadcasting "television broadcasting represents the most powerful and modern tool for educating and encouraging the whole party, the whole army, and the people of various nationalities across the country in the building of the socialist material civilization and spiritual civilization."

The production and application of consumer electronics products, with television broadcasting first has developed tremendously in China since the 3d Plenary Session of the 11th CPC Central Committee and many encouraging changes have taken place. Just 5 years ago, radios, TV sets, phonographs and radio-recorders were in short supply in the markets in China. Some of these products were imported, while others were only available for those who had the related coupons. Now the supply of such products in the markets is quite ample and they are available in more varieties and styles and with more functions to gradually meet people's needs.

The Major Achievements In 5 Years

First, production has developed tremendously. Following the 3d Plenary Session of the 11th CPC Central Committee, the principle of developing consumer products was put forth to quicken the rapid growth of consumer electronics products. By relying on its own efforts, coupled with proper imports of advanced technology, China has consequently been able to improve product quality gradually and stably. Over the past few years, the output of radios has grown by 27 percent over the figure for the previous 20 years. TV sets by 1,020 percent, and radios 1,400 percent. The output of these products grew considerably last year. The output of TV sets totaled 6,408,000, 12 percent higher than 1982 (of which, there were 529,000 color TV sets, 84.24 percent higher than the previous year's figure); radios totaled 18.42 million, a growth of 18.4 percent; and recorders 4,294,000, 30.7 percent higher than 1982.

The development of the production of these products has been able to gradually meet people's needs and per capita ownership has constantly improved. The

statistics by the end of 1983 showed that the number of the TV sets owned by the people totaled 26,602,000. In 1977 there were 0.03 TV sets per 100 persons across the country, while the figure for 1980 grew to 0.9. The present popularization rate in urban areas is 80 percent (based on per 100 households). The number of radios owned by the people was 16,236,400, with an average of 1 radio for each 6 to 7 persons across the country; 103 were owned per 100 households in cities and towns, 61.2 percent higher than 1978. Recorders totaled 14,454,000, with an average of about 20 for per 100 households in urban areas. The number of consumer electronics products owned in big and medium-sized cities is relatively higher, with more rapid growth. For example, the number of TV sets per household in Beijing in 1981 was 330 percent higher than 1978 and the number of recorders per household grew by 3,200 percent. Now, these products are finding their way more rapidly into rural areas, mountain areas, and remote areas to open up the existing and potentially wide markets. In particular, "TV fever" and "color TV fever" are spreading in rural areas. The percentage of TV sets per household in rural areas before the 3d Plenary Session of the 11th CPC Central Committee was almost 0 but now it has grown to 2 percent. A considerable number of "television villages" have emerged one after another across the country.

Second, product quality has been considerably improved. Many high quality products have been produced in the past few years. Of 113 models of radios appraised in 1982, 25 won first prize and of 47 models of recorders, 4 won first prize. During the third national black and white TV set appraisal in 1981, 7 out of 71 varieties won first prize. In 1983, the "Beijing," "Xiongmao," "Kaike," "Jixing" and "Feiyue" brands of black and white TV sets won state silver medals. Four models of radios were defined by the related ministry as being of fine quality. Other TV sets that are regarded as not being of fine quality and that are not famous also have made considerable improvements in electric, photographic, and audio and video performance and appearance. Many new products are characterized by improved quality and function, smaller size, lower price, lower energy consumption, and lighter weight. The technology used by these products is also close to the level of similar products in other countries.

Third, product renewal has been quickened and tremendous development has been made in producing high quality products. China only produced several thousand tube-type radios and several hundred amplifiers in the early days following the founding of the PRC. In 1957 to 1958, the country began to trial produce and turn out transistor-type TV sets and recorders in limited numbers. The TV sets made by China used tubes instead of transistors up to the early 1970's. But since the 3d Plenary Session of the 11th CPC Central Committee, measures have been strengthened to improve technology and realize a change from tubes to transistors and integrated circuits. This change has been followed by the marketing of a number of new products that have been welcomed by consumers. And these products are basically in a position to meet the needs of consumers. A number of new products with new models and multifunctions have been produced one after another. For example, radios have developed from being mere receivers to audio-recorders while sound reproduction has been developed into bass and treble, stereo, double-track, and dual cassette function. The TV sets made by China now use transistors instead of tubes and the size of TV sets has increased from 9 inches to 12 inches. Recently, popular all-hand TV sets with 16- and 17-inch screens have been produced. A great number of color TV sets have been marketed. The country is now producing TV sets of various grades, from high and medium quality to popular styles so as to meet the needs still better.

Fourth, broadcast television has begun to be introduced in certain national economic departments and sectors. It has only been recently that TV sets and audio and video recorders have been used in education to exploit mental power and raise people's scientific and cultural level. Increasing numbers of people have taken part in this education and more time has been spent in this study. Some schools regard TV screens as "second classroom blackboards." Some units have used closed circuit TV sets and audio and video recorders for operational guidance to create educational conditions. The use of these consumer electronics products in medical and oceanographic education and guidance has improved the results of study. The use of other products has also had a good start. For example, industrial TV sets and monitors have been used in certain sectors to open up a new road for automation in industrial production.

Fifth, efforts have been made to increase the output of export oriented products and compete in the international market. In the past few years, China has exported a certain quantity of components and spare parts and sold to other countries a number of radios, recorders, and black and white and color TV sets. We have been working to open up markets for these products in Southeast Asia, Eastern Europe, and other regions. Beijing alone has exported a total of 150,000 TV sets (black and white and color) to the United States and certain countries in Western Europe and Southeast Asia. The supply of these products was quite tight in the domestic market last year, yet the related units still exported 890,000 radios, TV sets, recorders, electric fans, negative ion generators, and delay lines.

Current Problems

Although considerable achievements have been made over the past few years in the research and production of consumer electronics products, seen from the point of the fact that China is a vast country with a huge population, they are still very far from meeting the people's needs. The current problems in the production and application of consumer electronics products include the following.

First, the possession of the products by families and society is still low. Based on average per capita figures, the number of these products in China is still lower than many countries and their possession by social groups is also very low. The products possessed by these groups are mainly used in dissemination and recreation, while those used in such sectors as culture, education, industry and agriculture, and scientific research and medical undertakings are limited. The application of these products in these aspects is limited and more sectors have not used them.

Second, the production conditions and the property and function of the products of the existing enterprises in China are still lagging behind advanced international levels. The enterprises are excessive, their technological forces are scattered, production means are backward, product quality is low, and economic results are very much different from each other. For example, the cost differential between advanced and backward single products is about 73 percent. The situation of low level and repetitious "small and all-embracing" and "big and all-embracing" production still exists considerably.

Third, products with new models are yet to be developed. The supply of high and medium quality products has become tight following the improvement in the people's living standard. Such products as 14-inch color TV sets, 14- and 17-inch black and white TV sets, stereo dual cassette recorders, and other famous brand products are in short supply. Certain advanced products are being studied and made by the state and some others have been put into mass production. They include microprocessors to control the tones and switches of TV sets that will enable color TV sets to preselect 1 week's programs and switch off, change channels, and switch on at set times; magnetic cards that can be used to record photo albums on the basis of images and produce photos and that can be used to replace still pictures; and automatic reverse and automatic program selection multifunction recorders and micro-hifi recorders. But China is not in a position to mass produce these products yet to meet market demands. Therefore, efforts must be made to produce new products as soon as possible.

Fourth, product structure is irrational. Productivity for spare parts, components and modules as well as complete sets is unbalanced and comprehensive productivity and flexibility are weak. The tasks for reorganizing enterprises and reforming technology are still very arduous.

Future Measures

In order to develop consumer electronics products still better and provide markets with more electronics products that are characterized by better electronic, photographic, and audio and video performance; more attractive appearance; and better function so as to meet people's needs still better, it is imperative to do a good job of the following aspects:

First, strengthen guidance over macroplanning and arrange well medium- and long-range plans. Efforts must be made so that in the next 3 to 5 years, all countries, people's communes, and production teams have their own broadcast undertakings and all peasant households can listen to broadcasts while people in most counties can watch TV programs. Efforts must also be made so that by the end of this century, all households will gradually have their own TV sets. Measures will be taken in the future to operate radio and TV stations at the four levels throughout the country, with overlapping coverage. Certain provinces, municipalities, and counties will build their own radio and TV stations with their own programs. They must also develop frequency modulation broadcasting that is characterized by stable transmissions, anti-interference, wide audio band width and high fidelity so as to rapidly popularize television broadcasts. It is imperative to predict future demand on the basis of previous sales and purchase volume and consumption levels and work out medium and long-range plans. Production must be arranged on the basis of specific conditions so as to ensure that production is slightly higher than demand, with proper leeway and reserve. In this way, we will be able to maintain market sales.

Second, the existing enterprises must be reorganized while the production of enterprises that are producing low quality products with high cost and whose production is repetitious and low level must be limited so as to gradually rationalize the organizational structure of enterprises. The production of electronics products requires high technology, numerous parts, complicated

manufacturing processes, and strict quality control. Therefore, it is imperative to check the existing enterprises in an overall way, define different product and enterprise standards, and define certain production quantities, quality, and costs. The enterprises that are up to these requirements must be given licenses and those that fail to meet the requirements must be able to meet them in a definite period. The departments concerned must help enterprises that are producing low quality products with low economic results and that have failed to take effective measures to quickly shift to other production. It is also necessary to combine enterprise reorganization with such economic levers as substitution of taxes for delivery of profits and prices so that we will be able to regulate production well. It is also imperative, on the basis of reorganization, that all the related enterprises be put under the unified management of the Ministry of Electronics Industry. New factories must be subject to strict examination and approval so that they will really be able to add productivity and expand production. No construction or investment will be permitted for projects that have not been approved by the departments concerned.

Third, energetically develop the production of famous brand products. The factories that are producing famous brand products and that are attracting interest of customers and making big profits for the state must be supported. The principle of "six preferences" must be conscientiously implemented toward these factories so that they will be able to develop production rapidly and improve economic results. Efforts must be made to integrate enterprises with those producing famous brand products like "Dragon Heads" so as to gradually realize coordination among specialized departments in the process of production. It is necessary to form national and regional organizations so as to integrate backbone enterprises with research units, organize united bodies for carrying out research and production and realize the unification between scientific research and production. On the basis of integrating the best units, it is necessary to take strong measures to turn the factories that are producing famous brand products into bases and major forces for the production of products for domestic markets and exports. China is a vast country, the production and design of consumer electronics products in some places are based on the transmission and reception conditions of local radio and TV stations so as to meet specific local conditions. Although these products are not included in the list of the national famous brand products, they must enjoy the various preferences that are enjoyed by famous brand products.

Fourth, develop new products in a planned way or arrange well the proportion between high and medium quality products so that product structure can be constantly updated. As consumer electronics products require sophisticated technology and highly intensive know-how, the products become outdated very quickly, and the people's demands also change rapidly. Therefore, it is imperative that before a certain product enters its declining period, preparations must be made to producing new product to replace the former. Even if a product is in its growth period or in its rudimentary period, we must also study the trend of its development and define medium and long-range plans for readjusting the structure of the product. The quality of the existing products must be improved; the products with new models must be turned out as soon as possible and early measures must be taken to study and produce a new generation of products as early as possible.

Fifth, step up technological progress. In the past few years, China has imported 16 TV parts assembly lines and allocated more than 1 billion Yuan in importing production lines for producing such key components and parts as color cathode ray tubes, linear integrated circuits, high frequency magnetic heads, output transformers and printed circuits and importing three complete set assembly lines. Therefore, the related units must do a good [?] job of digesting and absorbing the related technology and carry out the corresponding work so that the supporting work of this productivity will also develop. The imported advanced technology must be shifted in a planned way from advanced enterprises to backward enterprises and from coastal areas to the hinterland so as to shorten the difference and make up for weak links.

CSO: 4006/630

INDUSTRY

PRC ECONOMY CONTINUES TO STEADILY GROW

OW040015 Beijing XINHUA in English 1637 GMT 3 Jul 84

[Text] Beijing, July 3 (XINHUA)--China's industrial output topped 330 billion yuan in the first six months of this year, up 11.6 percent over the same period in 1983. The latest figures released today by the state statistical bureau dispelled any doubts that the country's economic upswing could be sustained.

China's total output from industry and agriculture in 1983 was 920.9 billion yuan, reaching the target set for 1985 in the Sixth 5-Year Plan (1981-1985) two years ahead of schedule. And the past six months have witnessed rapid growth in the production of steels, cement and motor vehicles, chemical fiber fabrics, bicycles and TV sets, as well as coal, oil and electricity.

In agriculture, China gathered in a record summer harvest despite damages brought on by drought, low-temperature, incessant rains and hailstones, economists here said.

Capital outlay on major construction projects in the January-June period increased 9.2 percent over the same period of last year. Of this, investments in energy and communications rose 7.1 percent and 20.7 percent respectively.

Economists say that the steady economic growth has led to improved living standards and booming market activities in both urban and rural areas.

More and more peasants are buying fertilizers and using tractors and trucks to work their contracted land and undertake long-distance transport.

Medium and high-grade foods, household electrical appliances and top-quality bicycles and textiles are all selling well. The production of color TV sets, though up 160 percent in the first five months of this year, still failed to meet demand.

By the end of May, retail sales volume in China exceeded 123 billion yuan, or an increase of nine percent over the corresponding period of 1983, while the volume of imports and exports rose 22.6 percent, according to the economists. The growth of exports for the period is seen as holding steady.

The marked improvement in economic results has brought about a fundamental turn for the better in the state revenue, economists confirm.

The output value in state-owned enterprises in the first five months rose 10.5 percent over the same 1983 period, while profits gained and delivered to the state by these enterprises increased 15.6 percent and 10.7 percent respectively. State revenue was over 20 percent more than the same period of last year.

There were, however, strains to some extent on energy and transportation and communications, and shortages of some raw materials, the economists pointed out. Some enterprises consumed much more material while turning out poor quality products. They called for continued efforts to improve management and upgrade technology.

CSO: 4020/153

INDUSTRY

BRIEFS

JINCHUAN NONFERROUS METALS COMPANY--Beijing, July 7 (XINHUA)--The Jinchuan Non-ferrous Metals Company in Northwest China's Gansu Province, the country's leading nickel producer, met 55.3 percent of its annual electrolytic nickel production quota in the first half of 1984, according to a spokesman for the company. The company also met 59.6 percent of its annual state profit quota. The company produced more than 10,000 tons of electrolytic nickel and made profits of 100 million yuan (about 45.45 million U.S. dollars) last year. Both were all-time highs. Jinchang city where the company is located ranks second in deposits of nickelous sulfide in the world after Canada. Production of electrolytic nickel began in 1964. [Text] [Beijing XINHUA in English 0853 GMT 7 Jul 84 OW]

SHIMIAN ASBESTOS PRODUCTION--Shimian County in Sichuan Province China's largest asbestos producer, registered a 15 percent increase in production during the first six months of this year over the same period in 1983. The county produced 40,000 tons of asbestos last year--25 percent of the nation's total. Acid and fire resisting and heat and sound insulating, this important building material goes not only to other parts of China, but also to Africa and Southeast Asia. [Text] [Beijing XINHUA in English 0853 GMT 7 Jul 84 OW]

CSO: 4020/153

CONSTRUCTION

GUANGMING RIBAO ON ROLE OF MARKET TOWNS

HK020351 Beijing GUANGMING RIBAO in Chinese 18 Jun 84 p 2

[Article by Reng Hua [7458 5478]: "The Position Occupied and the Role Played by Market Towns in Socialist Construction in the Countryside"]

[Text] The emergence of market towns is the product of the development of commodity production. Probing into the law of market towns' own motion in socialist construction in rural areas is conducive to giving guidance to the building of market towns so that they may develop in a healthy manner.

Market Towns Play a Unique Role in Rural Construction

Economic development causes rural people to flow into cities.

This is almost a global trend. In 1800, urban population accounted for only 3 percent of the world's total population. In 1900, the urban population rose to 13.6 percent. In 1950, half a century later, the percentage rose to 28.6. The growth rate has increased even faster in the past 30 years. In 1980, the percentage was 42.2. At present, the percentage of urban population in our country is still rather low. However, with the progress of modernization and the development of social large-scale production, the growth rate of the urban population will inevitably increase. In the past few years, with the development of commodity economy, producers with technical skills and the ability of management are dissociating themselves from agriculture and their number is substantial. According to the estimation of departments concerned, by the end of this century, farm laborers who "dissociate from farming" may reach 200 million. How to "absorb" this large labor force is a very big problem. If we do not try to handle the problem properly and let large numbers of peasants pour into cities, we will have to build at least 500 big cities which can accommodate 1 million people each who can cope with these peasants. If we let large numbers of excessive agricultural laborers be held up in rural areas for a long time, it will be harmful to economic development and social stability. Proceeding from our national conditions and guiding the peasants to "giving up farm work without leaving their villages" is a broad road to economic prosperity and social progress and developing rural market towns is a good form for the gradual shift of the rural population.

Market towns are different from rural areas and are also different from cities. Their number is great and they are widely spread. They have vast hinterlands and are conducive to utilizing local resources and reasonably distributing productive forces. They have both agricultural and nonagricultural population and they also have large numbers of people engaged in both industry and agriculture at the same time. The structure of the population in market towns has the characteristics of being semistable and semimobile. These people work in market towns in the daytime but spend their nights back in their villages. They take farm work during busy farming seasons but take up industrial work during slack farming seasons. This new type of population structure is conducive to absorbing large quantity of manpower without increasing the state's burden. The economic structure of market towns comprises agriculture, industry, sideline production, and commerce. This diversified economic structure has the possibility of providing extensive employment. Market towns are located in centers of rural areas. Compared with rural areas, they have relatively more convenient conditions for cooperation in production, better transportation facilities, richer cultural life, better social services, and more flourishing trading markets. Since they provide people with better, more comfortable, more economic, and more convenient conditions than in rural areas, they attract more and more people to them and they accumulate more and more wealth. Market towns are between urban and rural areas. They are places where cities can easily give impetus to rural development. At the same time, they attract rural resources and serve rural areas. From a long-term point of view, building rural market towns should be the main direction of attack in the strategic policy for developing small towns and cities in our country.

Prospects of the Development of Rural Market Towns

Market towns are formed and develop under certain economic and social conditions and the progress of socialist modernization will inevitably open a broad road for the building of market towns. At present an entirely new situation has emerged. Concrete manifestations of this situation are as follows:

1. Peasants who have become well-off want market towns to become market centers of rural areas. In the past few years, because of improvement in their living conditions and their demands for a greater variety of commodities, the peasants urgently wish to expand the scale and capacity of rural markets. For example, peasants who have built new houses begin to pay more attention to indoor decoration and furniture. Peasants using electricity at home also need household electrical appliances. With the emergence of large numbers of special households, peasants not only want to buy the commodities they need but also want to sell their own products. The flourishing country fairs have reflected this new trend. However, the present country fairs still belong to the category of simple exchange of commodities. Each producer produces, transports, and sells his own products. At the same time each producer himself also buys, transports, and uses others' products. With the development of commodity production, a purchasing and marketing network with socialized and specialized characteristics will gradually be required for commodity circulation. This means that there should be a market center within a certain area.

2. The development of rural industry demands that market towns become its bases for production and processing cooperation. This therefore will change the irrational situation handed down from the past under which products of agriculture and sideline production are sent to cities for processing and then the processed products are sent back to rural areas for sale. This will have a very important bearing on using local resources, reducing transportation, and lowering production costs. The development of industry demands extensive cooperation conditions, convenient transportation, good facilities which provide various services, and an ample supply of power. At present, small-scale rural industry is gradually concentrated in nearby market towns where conditions are better. This is a new trend. For example, most of the 5,700 commune and brigade factories in Shanghai's suburban area are concentrated in market towns. This shows that the development of market towns is also needed for the development of small-scale rural industry.

3. Changes in the rural economic structure inevitably lead to changes in population distribution and demand that market towns become places where rural population concentrates. At present, the output value of industry and sideline production in many rural areas has far exceeded that of agriculture. Therefore the traditional self-sufficient or semiself-sufficient way of production with only agricultural operation which has been handed down for several thousand years has been smashed. This marks the emergence of a commercialized and socialized way of production. This historic change demands that market towns accommodate more manpower dissociated from agriculture and become "reservoirs" for population distribution between cities and rural areas. In this sense, the development of market towns is also directly brought about by the law of population redistribution.

4. The rise in the peasants' material and cultural life also demands that more attractive centers appear in rural areas. At present, the peasants in many localities are no longer contented with the simple necessities of life such as sufficient food to eat, sufficient clothes to wear, and a house to live in. They demand rural centers with various services facilities, including cultural, educational, scientific, and medical facilities so that they may enjoy modern civilization to a greater extent. This new demand is also a motive force accelerating the development of market towns.

5. The development of cities and rural areas also demands that market towns become bridges joining cities and rural areas. The separation of cities and rural areas and the increased differences between them occur under the historical conditions that a relatively great development of the social productive forces has taken place but such development has not yet reached a very high level. With the progress of modernization, particularly with the development of the agricultural productive forces to a very high degree, the differences between cities and rural areas will decrease gradually. Market towns have both the characteristics of cities and rural areas. Market towns attract rural areas and give impetus to rural areas. They can gradually increase factors characteristic of cities. They are the best transitional form for promoting the integration of cities and rural areas. At present, many rural market towns in our country are playing their important role in this respect.

Forecast on Stages of Development of Market Towns

As far as what can be expected, the development of market towns may undergo three stages--restoration, building key projects, and comprehensive development.

The characteristics of the restoration stage are: 1. Unprecedented flourishing country fairs; 2. Great changes in the economic structure of market town with industry and sideline production occupying a dominant position; 3. Simple public services facilities being constructed.

The characteristics of the stage of building key projects are: 1. Market towns throughout the country have their own development plans and such plans are being carried out accordingly; 2. Market towns have definite sources of funds for their construction--funds mainly from collectives together with certain state subsidies; 3. Substantial improvement of facilities in market towns. A transportation network inside these market towns that links with the transportation network outside them have been formed. Most residents in market towns use tap water and cultural, medical, scientific and technical centers have been set up; a great rise in the socialization and specialization of commerce and service trades.

In the stage of comprehensive construction, the overwhelming majority of market towns throughout the country will be built into small modern towns and cities of various forms with their own characteristics and with a high degree of civilization. Their characteristics are: extensive conditions for production cooperation, flourishing commercial centers, good cultural, educational, scientific and technical facilities, ample supply of power, convenient transportation, effective telecommunications facilities, comprehensive social services, and a pleasing environment. By that time, the differences between cities and rural areas will have been greatly reduced. It is estimated that this goal will not be attained before the year 2000.

CSO: 4006/643

CONSTRUCTION

POWER INDUSTRY REFORMS CAPITAL CONSTRUCTION

OW291041 Beijing XINHUA Domestic Service in Chinese 0846 GMT 28 Jun 84

[By reporter Xu Yaozhong]

[Excerpts] Beijing, 28 Jun (XINHUA)--Here is what this reporter has learned from the national discussion meeting on the reform of the management system of building industry and capital construction: In order to accelerate the construction of the electric power industry, China's electric power department is making four major reforms in its capital construction management system:

To implement the system of contracted responsibilities--for electric power construction projects, the Ministry of Water Conservancy and Electric Power will guarantee the electric power administrations that funds will be appropriated in a timely manner and necessary materials and equipment will be supplied. On this basis, the electric power administrations will guarantee that the projects will be completed with the budgeted investment, within prescribed construction time and according to specified quality standards.

To invite bidders--this practice has been applied first to the Lubuge hydroelectric power station in Yunnan, (?heing) built with funds furnished by the World Bank. Twenty Chinese and foreign firms submitted bids and the Japanese Taisei Corporation won.

To set up permanent construction project contracting companies--since the founding of the People's Republic, the agencies for building capital construction projects have always been set up on a provisional basis after the projects are included in the state plan of the fiscal year. The agencies are deactivated after the projects are completed. This practice is not conducive to accumulating experience.

To employ regular workers and hire contract workers and temporary workers at the same time--In order to reform the hiring system, the electric power construction department has decided that from now on, it will generally no longer recruit regular workers from the society, and more construction tasks will be assigned to contract workers and temporary workers.

CSO: 4006/643

CONSTRUCTION

BRIEFS

JILIN URBAN CONSTRUCTION--From 1979 to 1983, Jilin City, Jilin Province, built 500 apartments to house 50,000 families, 80 asphalt roads, 5 modern bridges, and 165 km of waterpipes to enable 92 percent of urban residents to have tap water. [Summary] [Changchun Jilin Provincial Service in Mandarin 1030 GMT 2 Jul 84 SK]

NEW TIANJIN HOTEL--On 29 June, Tianjin First Hotel signed a contract with Hong Kong's (Lishi) Corporation to build the China Tianjin First Hotel. This 28-story hotel, which will be equally invested in and jointly operated by these two parties, will cover 6,000 square meters and will have 42,000 square meters of floor space. It will have 500 rooms, a swimming pool, a beauty parlor, a dancing hall, and other facilities. Total investment in this hotel will be \$40 million. Li Lanqing, deputy Tianjin mayor, and Mao Changwu, advisor of Tianjin Municipal Government, and other responsible persons of relevant departments attended the contract signing ceremony. Construction of this hotel will begin in October 1984 and it will be completed in 1 year and 6 months. [Summary] [Tianjin City Service in Mandarin 1430 GMT 29 Jun 84 SK]

P.R.C. FUNDS CONSTRUCTION PROJECTS--Beijing, 5 Jul (XINHUA)--From next year, China will fund capital construction projects through loans instead of the present government allocations. Minister in charge of the State Planning Commission Song Ping said here today. The People's Construction Bank of China will be responsible for all the state-financed projects, he said at a national conference on restructuring the managerial systems of the building industry and capital construction, which closed here today. Along with the introduction of public bidding and investment responsibility to the building industry, the minister noted, the new measure was designed to cut costs and building time. In the past, the government has paid to cover extra costs when budgets or time limits have not been met. "From now on," he said, "capital, plus interest, must be paid by all construction projects." China began experimenting with undertaking construction projects on loans in 1979, and by the end of last year, such loan operations amounted to more than 10 billion yuan. [Text] [DW051662 Beijing XINHUA in English 1448 GMT 5 Jul 84]

CSO: 4020/155

DOMESTIC TRADE

HUNAN: CIRCULAR ON SUPPLY, MARKETING COOPERATIVE REFORM

HK051153 Changsha Provincial Service in Mandarin 2300 GMT 3 Jul 84

[Text] The provincial planning committee, the provincial economic committee, the provincial labor and personnel department, the provincial financial department, and eight other units recently issued a circular calling for the lifting of restrictions and the devolution of powers in carrying out reforms in the supply and marketing cooperative setup, so as to genuinely build supply and marketing cooperatives into cooperative commerce owned by collectives of peasants and to better serve rural commodity production and the development of rural economy.

On the reform of the labor and personnel system, leaders and staff members of supply and marketing cooperatives at all levels must be elected by commune member congresses. All cadres, staff members, and workers who meet the four requirements for cadres, including contract workers, staff members, and those peasants who buy shares, have the right to be elected. Personnel elected are entitled to the political treatment enjoyed by state cadres at the equivalent level.

On the reform of the financial management system, supply and marketing cooperatives at all levels must practice the system of carrying out independent accounting, assuming sole responsibility for their own profits and losses, and paying state income taxes.

On the implementation of the system of distribution according to work, supply and marketing cooperatives and enterprises at all levels may, according to different trades and work, adopt flexible and varied forms of payment for labor, including floating salaries, floating promotion, special promotion, and piece rate wages, adhere to the system of distribution according to one's work and more pay for more work, overcome equalitarianism in distribution, associate the payment of staff and workers for their labor with the results of the enterprises in their business operations, and establish the system of bonuses for staff and workers according to their labor.

The limits of powers on price control have been reasonably readjusted and the scope of business operation and service has also been expanded.

CSO: 4006/643

DOMESTIC TRADE

GUANGDONG CLEARS COMMODITY CIRCULATION CHANNELS

HK290858 Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 27 Jun 84

[Text] In order to act in the spirit of the recent provincial conference for prefectural and city committee secretaries, the provincial industrial and commercial administration bureau has decided to adopt eight measures to clear the commodity circulation channels. These measures are:

1. The bureau will relax the business scope of state-run commercial supply and marketing cooperatives in the rural areas.
2. The bureau will support enterprises as well as various sectors of the cooperative economy in districts and towns to develop commodity production, thus expanding commercial activities.
3. The bureau will allow agricultural, industrial and commercial enterprises, the cooperative economy, and individual industrial and commercial households in the mountainous areas to open sales outlets in towns. The bureau will issue licenses promptly and provide the necessary means.
4. Various prefectures and cities should run well markets for industrial products for daily use and for small commodities.
5. The bureau will actively coordinate with the departments concerned to lead peasants into towns to engage in industry and commerce.
6. The bureau will actively clear commodity circulation channels between the special economic zones and the hinterland markets, and will support the special economic zones to cooperate with the interior of the country by forming joint ventures.
7. The bureau will clear commodity circulation channels between Guangdong and other provinces.
8. The bureau will greatly support the individual industrial and commercial households to expand their business activities.

CSO: 4006/643

DOMESTIC TRADE

GUANGMING RIBAO ON ESTABLISHING TRADE CENTERS

HK090613 Beijing GUANGMING RIBAO in Chinese 24 Jun 84 p 3

[Article by Zhang Jinhao [1728 6855 6275]: "Several Questions Regarding the Establishment of Trade Centers"--passages within slantlines published in bold-face]

[Text] The implementation, with the cities as centers, of the coordination between specialized departments in the sphere of circulation and the reorganization and combination of the circulation departments has become an important way to promote the functions of circulation and to comprehensively reform it. The establishment of trade centers, on the other hand, is the starting point for reforming circulation, as well as an important issue in building a socialist circulation system with distinctive Chinese features.

The Establishment of Trade Centers Is the Starting Point for Reforming the Circulation System

The cities, as the economic centers of particular regions, are also industrial centers, financial centers, and centers for the circulation of commodities. Marx said: "Once urban industry is separate from agriculture, its products immediately become commodities. Thus the sale of such products requires the presence of commerce as its medium. This is natural. Thus, it goes without saying that commerce relies on the development of the cities and that commerce is in itself a condition for the development of the cities." (Marx and Engels: "Collective Works," vol 25, p 371) The establishment of trade centers is precisely the prerequisite for tuning a city into the economic center of a particular region.

The development of a socialist commodity economy is dependent on the market. The question of whether or not the economy in a certain region or department can develop is determined by whether or not production develops and whether or not the products are marketable is determined by the makeup of circulation and the organization of the market. Trade centers are an effective form of organization which promote production by developing circulation.

Socialist public ownership gives a socialist economy its planned character. However, the manifold aspects of socialist production and consumption make

it necessary for economic activities to be supplemented by market regulation. Planning is a guide for bringing the market mechanism into play, while the market is an important thing on which planning is based. A socialist commodity economy develops and expands on the basis of the interaction between planning and the market and the effects they have on one another. The process of circulation is principally a process of the functioning of the market. In order to help multichannel circulation play a positive role in the centralized socialist market, which is dominated by the state-owned commercial enterprises, it is necessary to gradually build centralized commercial organs. The establishment of trade centers meets this objective demand imposed by the development of history.

/1. The establishment of trade centers will speed up the reform of the circulation system./ The trade centers are combined organizations facilitating multichannel circulation. Their participants include commercial, industrial, goods and materials, and foreign trade departments, local businessmen, businessmen from other parts of the country, units owned by the whole people, collectively owned units, urban units, and rural units. The establishment of trade centers will free people from the restrictions imposed by the present circulation system and put an end to the consequent malpractices. Those who run the trade centers will not suffer from the disunity and separation brought about by the different departments in charge of the present circulation system and this will help reduce the number of unnecessary links in circulation. In the trade centers, producers and sellers can meet directly and suppliers and buyers, whether they are local suppliers and buyers or those from other parts of the country, can make deals directly. This helps speed up the transference of commodities from the sphere of production to the sphere of consumption and helps improve economic results. The application of unified management in the trade centers will put an end to the malpractices of the issuance of orders by too many departments and of setting prices arbitrarily. This will help give play to the leading role of the state-owned commercial enterprises.

/2. The establishment of trade centers will pave the way for linking up cities and rural areas./ For a long time, the problem of how to transport industrial products to the rural areas and agricultural products to the cities has remained one which could not be easily solved. With the establishment of trade centers, extremely favorable conditions for promoting the exchange of industrial products for agricultural products and for coordinating the development of the urban and rural economies will be created. The trade centers for industrial products are responsible for promoting the sale of products and the transportation of industrial products to the rural areas. Expensive goods, commodities in short supply, and fine products, as well as the great variety of small commodities can be transported to the rural areas. In addition, they can also receive representatives from the enterprises in the towns and townships and turn the reception of such representatives into an important channel for promoting the sale of the industrial products produced by the enterprises in the towns and townships. Those who participate in the trade centers for agricultural and sideline products will include

those companies responsible for the supply and marketing of cotton, hemp, fruits, and sundry goods, the food, aquatic products, and vegetable companies under the commercial departments, and those companies under the grain departments which buy and sell grain at negotiated prices. In addition, they can also admit the representatives of departments engaged in diversification and those from state-owned farms. In this way, they can more easily collect the agricultural, sideline, native, and special products from all over the rural areas. Some of these products are sold in the rural areas, some are sold to other parts of the province and other parts of the country, and some are even sold to other parts of the world.

/3. The establishment of trade centers will create conditions for the speedy and massive procurement and marketing of commodities./ The development of a modernized economy manifests itself in the sphere of circulation in terms of the speedy and massive procurement and marketing of commodities. However, at present, the procurement and marketing of many commodities and goods and materials are done by individual enterprises in various industries in small quantities and only a very small variety of commodities is bought or sold at one time. It is frequently the case that units consuming the same materials buy them from the same place independently. Thus, manpower and materials are wasted. On the other hand, production or commercial units in the same place deliver their goods independently, thus adding to the pressure on means of transport and wharves. All this is not in accord with the demands imposed by socialized mass production. With the establishment of trade centers, the departments responsible for circulation and those responsible for production can cooperate with one another and commodities can be sold and bought in the most reasonable quantities and at the most appropriate speed. In this way, the demand that the procurement and marketing of commodities should be both massive and speed is met.

The Establishment of Trade Centers Will Give Rise to Centers for the Circulation of Goods and Information

The circulation of commodities in modern times comprises a commercial process, that is, the process of the transfer of the value of commodities; a flow of goods, that is, the transfer of items with utility value; and the circulation of information, that is, activity which provides a picture of the past and present states of the transfer of commodity value and utility value and which forecasts the course of its changes. The trade centers are precisely where the commercial process, the flow of goods, and the circulation of information converge.

/The establishment of trade centers is an objective demand imposed by the development of the commodity economy./

With the development of commodity production, commodities are circulated over an even wider area. Consequently, in the sphere of circulation, the purchase and marketing of commodities (the commercial process) are separate from their transportation and storage (the flow of goods). The separation of the commercial process from the flow of goods is a result of the

contradiction between the movements of commodity value and utility value in the process of circulation and an objective demand imposed by the law governing the saving of the time spent on circulation. By analyzing the changes in the pattern of commodity value, we can cut the spending on circulation, speed up the turnover of funds, and, eventually, attain the goal of speeding up the replacement of the pattern of commodity value by another. By analyzing the process of the transfer of commodities, we can make the process of the transportation of commodities shorter, cut the time the commodities are kept in the sphere of circulation, and, eventually, attain the goal of speeding up the circulation of commodities.

However, from an early stage, we have overlooked the part played by the movement of items with utility value in the process of circulation. Different links in the process of circulation are subject to administration by different departments: the production departments are responsible for packing, the communications departments for transportation, loading, and unloading, and the commercial departments for storage and apportioning. Consequently, the continuous process of the circulation of commodities has been chopped into several pieces. In addition, different departments are independently responsible for business, supply and marketing, goods and materials supply, and foreign trade, and the circulation channels, warehouses, and the network of shops, enterprises, and so on come under different departments. However, there is no communication between the overlapping departments. This is unfavorable for the formation of a unified circulation of commodities, that is, the formation of a unified flow of goods. The establishment of trade centers brings the production, commercial, and circulation departments together, thus forming centers for the transfer of the value of commodities, that is, centers for the commercial process. On the basis of this, production is coordinated with circulation (storage and transportation) and unified arrangements can be made for the transfer of commodities, the items with utility value. Thus, the establishment of trade centers is both necessary and possible.

The centers for the flow of goods, as supporting organizations of the trade centers, should cooperate closely with the production and circulation departments. They are to be jobbing agents for the transfer of all commodities and goods and materials. Products produced by various factories and plants should be delivered to the warehouses belonging to the centers for the flow of goods directly and in compliance with the requirements for transportation and marketing. The commodities and goods and materials possessed commercial departments are to be stored by the centers for the flow of goods. The firms and enterprises are to be responsible for the transfer of the value of commodities only. The transfer of all material items is the responsibility of the centers for the flow of goods. In this way, the transportation facilities and warehouses of various enterprises and their task of transporting and storing goods can be brought together. By means of mass transportation and by selecting the most appropriate transportation route and the most economical means of transport, commodities can be transported from the places of production to the markets along the shortest routes and in the shortest time.

/The establishment of circulation information centers is a key to social and economic development./

The circulation of commodities consists of the transfer of the value of commodities, the flow of commercial items, and the relaying of information and feedback. Modernized production is dependent on the market and the development of production is dependent on information about the market. At present, technical information is a key to the development of production. In order to have timely feedback on changes in the demand situation in the market and to base on it our decisions on economic activities such as production and circulation, it is necessary to have a perfect and effective information circulation system. The commercial process and the flow of goods are processes in which information is created about and conveyed. There is a need for special organs to be responsible for collecting, summing up, generalizing, sorting out, and analyzing the information created by the commercial process and the flow of goods. They should also provide scientific forecasts on the basis of actual circumstances. Such special organs are the centers for the circulation of information.

With the establishment of the trade centers and the centers for the circulation of goods, there will gradually be more and more information about circulation and the source of information will become more and more centralized. The trade centers are the origin of information, while information forms an important basis for the business of the trade centers. Thus, it is totally necessary to institute in the trade centers market information organs and forecasting organs. Developed and perfected, these organs are to become circulation information centers. At the present stage, the circulation information centers can work as independent departments under the trade centers. Their chief responsibility is to provide forecasts and make predictions for the trends in the market in the near future. However, the analyses of the intermediate and long-term economic development and of the trends in the consumption of commodities fall under the responsibility of the economic information centers. In addition, with the establishment and development of the trade centers, new demands will be imposed on finance, communications, science, and technology. This will speed up the creation of favorable conditions for the establishment of financial centers, communications centers, and science and technology centers.

Provide the Necessary Conditions for the Establishment of Trade Centers

The establishment of trade centers is an important measure for giving play to the general role of circulation and for improving macroeconomic results. It has a bearing on all facets of agriculture, industry, commerce, the supply of goods and materials, and trade and it has to be supported and cared for by all. Thus, it is necessary to correspondingly provide some necessary conditions for it.

/First, speed up the building of the contingents of scientists and technicians./ Science and technology, as applied in the sphere of circulation, include the theory of the economics of circulation, the study of economic policies, and the study of the management of the enterprises responsible for

circulation, which fall under the social sciences; and the study of ways to quarantine animals, of the preservation of fruits and vegetables, and of the packing of commodities, transportation, storing, and marketing techniques, which fall under natural science and applied technology. Trade centers are brand new commercial organs. Their activities will create theoretical and practical problems which workers in the sphere of circulation have never encountered before. Thus, in order to meet the demands imposed by the establishment of trade centers, it is necessary to speed up the building of the contingents of scientists and technicians. In addition to establishing institutes to study commercial problems and the supply of goods and materials, it is also necessary to establish institutes to study commercial tactics and techniques. It is necessary to train a number of commercial economists with considerable knowledge of the economics of circulation, circulation policy, business management, and the organization of the circulation of commodities, and a number of specialists with sound knowledge of natural science and applied technology in order to strengthen the battalions of commercial management. It is necessary to train a number of sales engineers who have a sound knowledge of various product-related branches of learning, such as economics, market science, marketing, psychology, financial management, and so on. They are to play a dominant role in opening up new markets and in promoting sales. Otherwise, we cannot make the commercial enterprises a success, skillfully solve the problems arising from the sale of goods, or have accurate feedback about the market. Then, it follows logically that we cannot properly fulfill the task of promoting the sale of commodities.

/Second, speed up the construction of the capital facilities for circulation./ As a result of the protracted prevalence of those ideas which attach little importance to circulation, we have paid more attention to production than to circulation and the construction of capital facilities for circulation. Thus, the facilities for circulation become increasingly outmoded and the techniques employed are extremely backward. They have become an obstacle to a rapid development of production. Thus, it is necessary to attend to the construction of the capital facilities for circulation in the way we attend to industrial production. In addition, a trade center is in itself an important facility for circulation. In order to meet the demands imposed by modernized circulation, it is necessary to complement the trade centers with advanced facilities and techniques. The success of this construction will add tremendously to the functions performed by circulation and facilitate the important introduction of new products, the promotion of production, and the revitalization of the economy. In addition, it will also bring about tremendous changes in the appearance of the cities and in the facilities for circulation. Although the building costs could be as much as 10 million yuan, the results thus brought about would be as good as those brought about by investment in industry.

/Third, strengthen economic legislation and administration./ As the trade centers manage business by economic means rather than by administrative means, it is necessary to have perfect regulations governing economic management and to institute an office which provides legal advice. We should be familiar with and abide by the regulations governing economic activities, which are

promulgated by the state. In addition, we should also formulate some economic regulations in order to make the operation of the trade centers flexible and orderly. As the trade centers deal with all aspects of industry, agriculture, commerce, the supply of goods and materials, and trade, it is necessary to have a department to be responsible for centralized administration. This organ is to be principally responsible for supervising and directing the range of business, the overall arrangements, and the enforcement of the policy governing the supply of commodities and the price policy. In this way, there will be unified leadership in the socialist market and we can ensure that the circulation of commodities is able to develop along the right track.

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LABOR AND WAGES

ROLE OF FLOATING WAGES IN DISTRIBUTION SYSTEM

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[Article by Sun Quanglin [1327 1684 2651]: "A Two-Tier System of Distribution Should be Practiced, Using the System of Floating Wages as the Main Form"]

[Text] The present mode of the distribution of wages practiced in our country was founded in the 1950's on the basis of foreign experience. Its basic feature is direct distribution to the staff members based on a unified time-rate wage scale stipulated by the state. To put it simply, it is a one-tier system of distribution under centralized state control which uses fixed wages as the main form. The good point about this mode of wage distribution is that it has discarded the exploitative nature of the old wage system. Because it embodies the socialist principle of "he who does not work, neither shall he eat," it can arouse the enthusiasm of the workers to a certain extent. But, with the passage of time, its shortcomings have begun to reveal themselves. For one thing, the control over wages is too rigid. Because the power of distributing wages rests in the hands of the state, all wage standards and wage readjustment programs have to be decided on by the state. The enterprises do not have the power to proceed from actual conditions and to adopt a flexible policy based on the principle of to each according to his work. For another thing, there is egalitarianism in the distribution of wages. Because the state practices direct distribution in the form of fixed wages, it is inevitable that workers' wages will become divorced from the fruits of operation of enterprises and from the fruits of labor of individuals. This essentially means that "remuneration" is divorced from "labor," which is a violation of distribution according to work. Because of this, differences in business performance cannot be duly reflected in the level of wages. It is also quite difficult to implement the principle of "equal pay for equal work" among the staff and workers. Thus, wages have been unable to play their role as an economic lever all this time in our country. It is obvious that the crucial reason for the above defects lies in the basic mode of wage distribution. The task of removing the defects of the existing wage system and giving full scope to the role of wages as an economic level cannot be carried out simply by improving the wage standard and wage scale. The correct method is to reform the traditional mode of wage distribution and establish a new mode which embodies the socialist principle of to each according to his work and which suits China's conditions.

First, take the two-tier system of distribution as the basic procedure in the distribution of bonuses and wages.

The biggest dispute over the question of the "two-tier system of distribution" is whether or not distribution to the enterprises by the state falls into the category of distribution according to work. Some comrades think that state distribution to the enterprises can well be summarized as distribution according to work. Some hold that to each according to his work can only apply to individuals and cannot be applied to enterprises, thus denying that state distribution to the enterprises is distribution according to work. I think that state distribution to the enterprises involves more than one level. It embodies the principle of to each according to his work, but it is not entirely distribution according to work. For example, the distribution of the production development fund of enterprises should not be classified as distribution according to work. As a part of the production development fund of society, it should be distributed chiefly according to the principle of ensuring the planned and proportionate development of the national economy. However, this does not mean that we can thus deny that to each according to his work is not observed in the distribution of reward and wage funds by the state to the enterprises. It is obvious that bonuses and wages are monetary forms of personal consumer goods. Although they are not directly distributed to individuals, the principle of distribution followed is completely in accord with Marx's basic concept of to each according to his work. We must not negate the fact that the principle of to each according to his work is embodied under existing conditions in the distribution of wages by the state to the enterprises or even negate the two-tier system of distribution simply because Marx only talked about distribution according to work between the society and the individuals. Marx's idea of direct distribution by the society to individuals according to their work was based on the assumption that socialism had brought about a unitary system of public ownership and developed a planned economy in the full sense. It is quite obvious that at the present stage of socialism, we not only cannot have a unitary system of public ownership but must develop diversified economic forms; we not only cannot incorporate all economic activities into unified state planning but must give full scope to the auxiliary role of regulation by market mechanism. Thus, far from being "unorthodox," the practice of a two-tier system of distribution according to work in the distribution of wages is in fact a more accurate representation of Marx's basic concept of to each according to his work because it proceeds from the actual conditions in China.

Second, take floating wages as the main form of realizing to each according to his work.

The two-tier system of distribution according to work, which links the wages of staff and workers with the fruits of operation of the enterprises as well as the fruits of labor of individuals, is bound to bring about a new feature in the way that the principle of to each according to his work is realized. By this we mean floating wages. In recent years, the floating wage system has been adopted by many enterprises. At the beginning, floatation was most confined to bonuses. Now, some enterprises have floating wages to different extents and more are joining in. It is by no means fortuitous that the system of floating wages has developed so rapidly and achieved satisfactory results. After all, this form of wages meets the requirement of to each according to his work. We know that as far as individual enterprises or workers are concerned, the social labor they furnish will never be identically equal even within completely equally natural time. It changes with time and environment. On the one hand,

After the smashing of the "gang of four," the bonus system was restored in our enterprises. At present, bonuses are normally distributed to the enterprises according to their performance after their economic targets have been assessed by the state. Internal distribution is then carried out within the enterprises according to the contributions made by the staff and workers in actual work. In this way, the distribution of bonuses is actually carried out at two levels. At the first level, the state distributes to the enterprises. At present, the two-tier system of distribution has already been extended to include the basic wages. The Hongqi Wooden Furniture Factory in Chongqing decided that 20 percent of its total basic wages, together with bonuses, overtime pay, and a portion of other subsidies, should float with its profits. Moreover, no ceiling or guaranteed minimum pay was set. Having won some say in the distribution of wages, the enterprise has now become a relatively independent economic entity. Wages are no longer directly distributed by the state to the staff and workers. Practice proves that the two-tier system of distribution can better reflect the principle of to each according to his work, arouse the enthusiasm of the enterprises and their staff and workers, and promote the development of production.

As we all understand, "work" to each according to his work must be "work" recognized by society, that is, it must be social labor. If the labor of an individual is not recognized by society, it cannot be taken as the basis for distribution. In the economic environment of commodity production and exchange, individual labor can only obtain social recognition through commodity exchange. However, the individual labor of workers of enterprises is an inseparable part of the collective labor of the enterprises. An individual worker cannot directly realize his share of labor. The individual labor of workers of enterprises must be fused into the product of collective labor and sold by enterprises in their capacity of commodity producers before it will be recognized by society. Moreover, it will only be recognized by society as a share of collective labor. It will not be recognized directly and singly. Only the collective labor of enterprises will be directly recognized by society. Thus, as far as the society (state) is concerned, there is no basis for practicing direct distribution to individuals. It can only distribute directly to the enterprises on the basis of the amount of collective labor recognized by it and let the enterprises do the rest according to the share contributed by individual workers to collective labor. Furthermore, the presence of commodity production and commodity exchange determines that socialist enterprises also play the part of relatively independent commodity producers. As commodity producers, they must produce and exchange products in a normal way. To this end, they not only need to have authority and responsibility over matters of production and circulation, they must also have authority and responsibility over methods of distribution. They should obtain the necessary economic benefits through distribution and become relatively independent economic entities. Only in this way will they truly have decision-making power and truly become relatively independent commodity producers. An important reason why our enterprises lacked internal motivating force was that under the traditional economic system, they neither had relatively independent economic benefits nor had the right to carry out distribution according to work. That was why wages and bonuses had been unable to play their proper role as economic levers, and the enthusiasm of the enterprises and staff and workers had not been brought into full play.

it changes with changes in the attitude of workers toward their work and in their capability (both physical and mental). On the other hand, it is affected by many changing factors in the process of the transformation of individual labor into social labor. Thus, this changeability on which distribution according to work (labor) is based is bound to lead to changeability in the outcome of distribution (remuneration). In this sense, fixed wages will inevitably result in the deviation of "remuneration" from "labor" and floating wages are the only way to realize to each according to his work.

Third, regulate and control wages (bonuses) by means of planning.

Should we or should we not regulate and control wages by means of planning after the two-tier system of distribution and floating wages have been put into practice? On this question, we have learned our lesson already. When the bonus system was first restored after the downfall of the "gang of four," bonuses "went out of control" to varying degrees because control was slackened for a while. In recent years, efforts have been made to tackle this problem. Although the present method of control is still inadequate, the principle of planned regulation and control has already been implemented in the distribution of wages. Concrete methods are also being perfected. For example, Chongqing City adopted a more flexible method of planned regulation and control of bonuses in carrying out overall reform of the economic systems at selected spots. They selected different types of enterprises (enterprises that have registered sustained growth in profits handed over to the state, enterprises that have great potentials for production and have increased profits rapidly, enterprises that run at a loss due to policy or poor operation, and son on), determined the bases for annual tax (profit) delivery or for financial subsidies, as well as the corresponding bases for bonuses, for various enterprises, and then worked out how bonuses and tax and profit delivered to the state should be floated according to the bases for different types of enterprises (including the methods of assessing relevant economic and technical targets). For example, for enterprises that have great potentials for production and have increased profits rapidly, tax (profit) delivered to the state in the preceding year will be taken as the base and the base for bonuses will be fixed at between 1.8 and 2.2 months of total standard wages. If tax (profit) delivered to the state exceeds the base by between 1 and 10 percent, bonuses will be increased by 1 percent for every 1 percent above the base. If tax (profit) delivered to the state exceeds the base by between 11 and 20 percent, bonuses will be increased by 0.8 percent. The greater the excess becomes, the smaller the rate of increase becomes. If the base for tax (profit) delivery is not met, bonuses will be reduced in the same proportion according to the amount still outstanding. After this method has been put into practice, no ceiling or no guaranteed minimum pay will be set. This method is an improvement on the former method which has a "ceiling." To a certain extent, it combines to each according to his work with "planned distribution."

Distributing wages in a planned way is not only an important aspect of socialist planned economy; it is also a prerequisite for practicing to each according to his work. This is because distribution according to work, which exists within the system of socialist economic laws, and the law of the planned and proportionate development of the national economy control and condition each other. If we do not make an earnest effort to strengthen the planned regulation and

control of distribution by the state, the proportionate development of production will be upset by unplanned distribution. This will lead to the disproportionate development of the national economy. Practice has proved that with serious discrepancies between accumulation and consumption and between total wages and the amount of consumer goods available, it is by no means easy to correctly implement the principle of to each according to his work. Besides, as things now stand in our country, the importance of carrying out planned regulation and control in the distribution of wages by the state becomes all the more salient. China is a vast country with a huge population but meager resources. The interests of different quarters are also rather complicated. Thus, in carrying out distribution, it is necessary to take into consideration the relations between the state, the enterprises, and the individuals, as well as the relations between town and country, between regions, between departments (trades), between enterprises, between physical and mental labor, and so on. Consideration must also be given to the relations between accumulation and consumption, and between personal and collective consumption. Thus, whether we are considering the internal demands of the socialist economic law or the actual conditions in our country, efforts to strengthen the planned regulation and control of wages (bonuses) while implementing the principle of to each according to his work are both necessary and reasonable.

After summing up positive and negative experiences in the distribution of wages over the 30 years and more since the founding of the PRC, we can see that the former mode of highly centralized one-level distribution which used the fixed wage system as the main form does not conform to the socialist realities in China. On the other hand, the two-tier system of distribution according to work, floating wages, the planned regulation and control of wages by the state, and other basic measures adopted in the course of reform in recent years are successful measures that have their scientific bases. Thus, I believe that we may proceed from the practical experience discussed above in order to work out a basic mode for the distribution of wages in our country. By this I mean the two-tier system of distribution according to work which uses the floating wage system as the main form, and which is placed under the regulation and control of state planning.

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TRANSPORTATION

BRIEFS

SOUTHERN XINJIANG RAILWAY OPENING--Urumqi, 8 Jun (XINHUA)--The 476.5 kilometer-long Southern Xinjiang Railway is now open to traffic following completion of the third and last section of the railway, according to today's ECONOMIC DAILY. The railway, from Turpan on the Lanzhou-Urumqi trunk line to Korla, an industrial city in central Xinjiang, roughly follows the same route as the "Silk Road" that linked ancient China with central and west Asia. The last section Hejing, a pastoral county reputed to have more livestock than most other counties in China, to Korla was completed on 31 May. Threading its way through the Tianshan Mountains and the Turpan Basin and ascending at one point to an altitude of over 3,000 meters above sea level, the railway has involved a large number of complex engineering projects including bridges and tunnels, the longest tunnel being 6 kilometers. Started in 1974, the railway was built by units of the former Army Railway Engineering Corps now merged into the Ministry of Railways. [OW120411 Beijing XINHUA in English 0900 GMT 8 Jun 84 OW]

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TAIWAN

YU SOLICITS CAPITAL, TECHNOLOGY FROM FREE WORLD

OW021900 Taipei International Service in English 0100 GMT 30 Jun 84

[Text] Premier Yu Kuo-hwa of the Republic of China today called on nations of the free world to continue to provide the capital and technological know-how to this country to help further develop this nation. At the same time, Yu said, the Republic of China will continue to provide the technical, agricultural, and other assistance to developing countries in the world.

He said: [Begin recording] In the past three and a half decades, the Republic of China, on the other hand, has advanced from a developing country to the threshold of a developed country, becoming the 13th largest trading nation in the world. In the same period, we have also achieved a more equitable distribution of work among the people. The ratio between the income of the (upper) 20 percent and that of the bottom 20 percent of our society has been narrowed to 4:1. As we are in the process of upgrading from the labor-intensive to technology- and capital-intensive industry, we sincerely hope that the free world nations will continue to provide us with more capital and technological know-how. In the same spirit, the Republic of China will be happy to continue to offer technical, agricultural, and other assistance to developing countries. [End recording]

That was Premier Yu's speech during his first cocktail party for foreign ambassadors and representatives in the Republic of China early this evening in Taipei.

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PREMIER EMPHASIZES LABOR SAFETY

OW290437 Taipei CNA in English 0302 GMT 29 Jun 84

[Text] Taipei, 29 Jun (CNA)--Premier Yu Kuo-hwa Thursday emphasized that labor security has precedence over coal production. He directed the ministries of economic affairs and the interior as well as the Taiwan provincial government to pay attention to this.

He also told the Ministry of Economic Affairs to step up safety measures in coal mines around the island.

The premier made the above statements after hearing briefings on the Haishan Coal Mine disaster at a regular Executive Yuan meeting.

He pointed out that with the number of factories and workers increasing, any accident may not only cause harm to laborers inside the factory, but also affect the safety and living conditions of the people living around.

He ordered responsible agencies to make a check on safety measures in the 120 coal mines around the island and demanded improvement for those whose accident prevention measures are not up to standards.

As of Thursday, 69 bodies have been dug out of the fateful pit in the Haishan mine, two died of critical wounds while working on the rescue mission, and four others are still buried in the pit with a slim chance of getting out alive.

Economics Minister Hsu Li-teh said his ministry will put up a new coal mining policy within two weeks. He added that a new three-year project for the improvement of mine safety is being drafted as the five-year plan for the same purpose is going to expire at the end of June.

Meanwhile, Taiwan Governor Chiu Chuang-huan reported to the Executive Yuan meeting that his administration will complete checking the 120 coal mines in the Taiwan area within three weeks.

Those found not with acceptable management and safety equipment will be given a deadline by which improvements must be made, and if by then improvement is still not made, they will be ordered closed and be prosecuted according to law, the governor said.

Meanwhile, the "Campaign To Channel Love to Haishan" goes on, with the CENTRAL NEWS AGENCY donating NT [New Taiwan] \$300,000, and Ku Chen-fu, chairman of the Taiwan Cement Corp., giving out NT\$1 million, and an old men's association in the Chungshan District of Taipei, donating NT\$8,400 to the fund, which has accumulated nearly NT\$30 million as of Thursday.

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